How clean is clean?
The US debate over contaminated land
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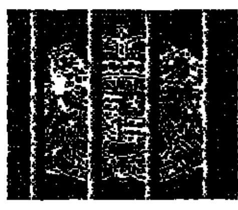

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FINANCIAL TIMES

Europe's Business Newspaper | WEDNESDAY MAY 4 1994 | D8523A

Children and Red Cross staff die in Rwanda massacre

Twenty-one children and 13 Red Cross volunteers were killed in an attack on an orphanage at Butare, southern Rwanda, the International Committee of the Red Cross said yesterday. The children had been moved from the capital Kigali because it was believed they would be safer at the orphanage. United Nations officials and the Red Cross say more than 100,000 people have been massacred in Rwanda since the tribal killings began four weeks ago. US steps up peace efforts, Page 7

Russia fails to meet IMF conditions: Russia said it could not fulfil International Monetary Fund conditions agreed when Moscow received a $1.5bn loan in March and that higher inflation was the only way to save the Russian economy. Page 2

New York post for British editor

Andrew Neil (left), editor of UK newspaper The Sunday Times, which is owned by Rupert Murdoch, is being seconded to New York for seven months to launch a current affairs programme for Murdoch's US television network. If the show, which is designed to rival CBS's *60 Minutes*, is a success, Mr Neil is likely to sign a two or three year multi-million dollar contract.

India postpones VSNL issue: The Indian government postponed a $1bn international equity issue by Videsh Sanchar Nigam, the state-controlled international telecommunications monopoly, after fund managers baulked at the high price. Page 19

Hyundai head to retire: Chung Ju-yung, founder and honorary chairman of the Hyundai conglomerate, is to retire from the management of South Korea's largest business group. Page 18

CD sales near level for cassettes: International unit sales of compact discs rose by 19.4 per cent last year to 1.39bn. Sales of audio cassettes fell 2 per cent to 1.44bn, raising the prospect that the CD will replace the cassette as the world's principal music carrier. Page 5

EU tackles video camera imports: The European Union has imposed definitive anti-dumping duties of as much as 96.8 per cent on imports of studio video cameras made by five Japanese electronics companies. Page 5

Stora back in the black: Stora, Europe's biggest pulp and paper group, made a strong return to profit in the first quarter after benefiting from increased demand, cost cutting and big capital gains. Page 19

Pressure on margins hits Pepkor: Heavy pressure on operating margins meant that Pepkor, South Africa's biggest retail group, increased annual operating profit by only 3 per cent to R275m ($55.5m). Page 22

BHP faces New Guinea suit: Papua New Guinea villagers are to file a A$4bn (US$2.8bn) suit against Australia's Broken Hill Proprietary alleging environmental damage caused by the Ok Tedi copper mine in western PNG, which BHP manages. Page 6

González digs in: Embattled Spanish prime minister Felipe González refused to take the blame for corruption scandals involving former members of his administration. An aide said Mr González had "absolutely no intention of resigning". Page 2

Marzotto slips 74%: Italian clothing and textile group Marzotto reported a 74 per cent decline in net earnings to L10.2bn ($6m) because of a slump in demand on the world clothing market. Page 20

Bangladesh cyclone kills 110: A cyclone that devastated south-east Bangladesh killed at least 110 people. More than 5,000 others were injured and at least 500,000 left homeless.

H.J. Heinz, the international food group, has asked us to clarify remarks by Mr Tony O'Reilly, its chief executive, on the company's television advertising plans in the UK. The company confirmed yesterday that it will stop advertising its main products on television in the UK and concentrate on direct marketing. It will however continue to advertise the Heinz name on British television, with spending likely to remain at its present level – an estimated £12m ($17.5m) a year.

■ STOCK MARKET INDICES		
FT-SE 100	3,100.0	(-25.3)
Yield	3.91	
FT-SE Eurotrack 100	1,466.26	(+3.53)
FT-SE-A All-Share	1,570.95	(-0.6%)
Nikkei	closed	
New York: lunchtime		
Dow Jones Ind Ave	3,695.08	(-5.94)
S&P Composite	452.06	(-0.96)
■ US LUNCHTIME RATES		
Federal Funds	3½%	
3-mo Treas Bills: Yld	4.128%	
Long Bond	86½	
Yield	7.367%	
■ LONDON MONEY		
3-mo Interbank	5⅛%	(Same)
Liffe long gilt future	Jun 104⅞	(Jun 105⅜)
■ NORTH SEA OIL (Argus)		
Brent 15-day (June)	$16.65	(15.445)
■ Gold		
New York Comex (Jun)	$376.8	(377.4)
London	$375.3	(376.1)

■ STERLING		
New York lunchtime		
$	1.513	
London:		
$	1.5065	(1.5163)
DM	2.483	(2.5125)
FFr	8.5058	(8.6128)
SFr	2.1179	(2.1342)
Y	152.629	(153.582)
£ Index	79.6	(80.3)
■ DOLLAR		
New York lunchtime:		
DM	1.641	
FFr	5.64	
SFr	1.398	
Y	101.15	
London:		
DM	1.6461	(1.657)
FFr	5.6388	(5.68)
SFr	1.404	(1.4075)
Y	101.315	(101.495)
$ Index	64.7	(64.8)
Tokyo closed		

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft165	Morocco	MDH16	Singapore	S$4.30		
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rep	Sk50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00		
Czech Rp	CZK50	Israel	Shk8.50	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Tunisia	Din1.500		
France	FFr8.50	Kuwait	Fils600	Poland	Zl 32,000	Turkey	L30000		
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	UAE	Dh12.00		

Anomalies slow S Africa poll count

Delay forces postponement of national assembly session

By Michael Holman, Patti Waldmeir and Mark Suzman in Johannesburg

South Africa's electoral machinery ground to a temporary halt last night as officials fought to reconcile anomalies and irregularities in voting returns the day after President F. W. de Klerk conceded defeat to Mr Nelson Mandela's African National Congress.

Counting was understood to have been completed in most areas, but the release of results was halted by the Independent Electoral Commission (IEC), the body charged with conducting elections and certifying the poll.

The delay forced the postponement until Monday of the first session of the national assembly, which was to have been convened on Friday.

Officials privately acknowledged that the exercise amounted to an attempt to determine an outcome that would be broadly acceptable to the three main political parties. This involves decisions on how disputed ballots are to be counted. Under the electoral act, political parties may agree among themselves on how to resolve anomalies and discrepancies in the vote, if necessary by amending party totals.

Mr Mandela, due to be nominated the next president, held talks during the day with Mr de Klerk on both the practicalities of the handover and widespread concerns about the integrity of the voting procedures and the count.

Officials on both sides privately expressed concern that both the momentum of the transition be maintained and the broad integrity of the result be accepted. Officials of the long-ruling National party, who during the day met Mr Justice Johann Kriegler, IEC chairman, privately expressed concern at the trend in the results.

They spoke of "two psychological thresholds" which, if crossed, could strain the transition and the authority of the yet to be appointed government of national unity. If, under such disputed conditions, the ANC were to achieve more than 66 per cent of votes cast, allowing it to control the process determining the final shape of the country's constitution, and the National party support fell below 20 per cent, there would be serious reservations about the outcome.

Latest national results, based on half the estimated votes cast, show the ANC holding steady at 62.5 per cent of the vote and the share of the National party falling slightly to 22.1 per cent.

Government officials added a third consideration: if Chief Mangosuthu Buthelezi's Inkatha Freedom party gets a substantial majority in his Natal heartland, the ANC may challenge the result. A senior ANC leader in the province last night gave notice of a possible dispute by saying that the lead was "not a true reflection of the IFP's popularity", while Chief Buthelezi continued to reserve his position on the outcome of the poll until the results were known.

Results in Natal left Inkatha with more than half the vote, but these were based on returns from the north of the province where the IFP is strongest.

In the Western Cape province, won by the National party, Mr Hernus Kriel, who will become regional premier, said: "This is not a time to gloat, but a time to be grateful. We commit ourselves to a policy of reconciliation, and that begins today."

Johannesburg to relax market access restrictions; Western Cape will prosper, Page 7

Nervous Jericho prepares to greet self-rule

By Julian Ozanne in Jericho

Palestinian schoolchildren armed with brooms began collecting rubbish from the dusty streets of Jericho yesterday to celebrate today's planned signing of the Palestinian self-rule agreement.

Under the agreement, Jericho, a sleepy, palm-fringed town which claims to be the oldest city in the world, will become the seat of the Palestinian administration and the home to Mr Yassir Arafat, the symbol of Palestinian nationalism.

At the Israeli police post in the heart of the city, once the target of Palestinian resistance, schoolchildren collected stones from under coils of razor wire. Nervous Israeli soldiers armed with automatic rifles watched from observation towers. But instead of throwing the stones, the children carted them away to a nearby rubbish tip.

At a schoolteacher's house, youths were busy preparing banners which read, "South Africa last week – Palestine today." Flags and bunting in the black, red, green and white Palestinian colours were to be draped throughout the oasis town which could become a Palestinian gateway to the Arab world.

Many of Jericho's 14,000 residents believe they are about to witness a fundamental turning point in their lives after 27 years of Israeli occupation and centuries of foreign domination. Within 21 days of today's signing, Israeli troops are scheduled to complete their withdrawal from the Gaza Strip and Jericho – the first Israeli surrender of Palestinian lands occupied in the 1967 Arab-Israeli War.

"When the agreement is signed and the Palestinian police arrive it will be the beginning of our liberation. The beginning of the liberation of Palestine," said Mr

Continued on Page 18
Last-minute row hits Gaza pact run-up, Page 6

Israeli foreign minister Shimon Peres (top) and prime minister Yitzhak Rabin with his wife Leah arrive at Cairo airport Reuter

SmithKline pays $2.3bn for US drug wholesaler

By Tony Jackson and Daniel Green

SmithKline Beecham launched a further European assault on the troubled US drugs industry yesterday, offering $2.3bn for Diversified Pharmaceutical Services.

In a separate move, Eastman Kodak of the US is to sell its pharmaceutical division, valued at well over $5bn, possibly to its French partner Elf Sanofi.

Together with Monday's $5.3bn sale of the US drug group Syntex to Roche of Switzerland, this brings the total of US healthcare assets changing hands this week to more than $12bn. The moves are in response to acute pressure on the US healthcare industry, partly caused by the Clinton administration's attempts to contain costs.

European companies are increasingly seeking bargains in troubled sectors of the US economy. Last week the UK tobacco giant BAT Industries paid $1bn for American Tobacco, in an industry also under pressure from the Clinton administration.

SmithKline Beecham is paying $2.3bn in cash for Diversified Pharmaceutical Services, one of the four largest drug wholesalers in the US. The deal mirrors Merck's $6.7bn acquisition of the leading drug wholesaler Medco last year, which sent shock waves through the US drug industry. Like Medco, Diversified Pharmaceutical is a so-called pharmaceutical benefit management company, seeking to obtain bulk discounts from the drug companies on behalf of a claimed 11m patients.

SmithKline Beecham's chief executive Mr Jan Leschly, who recently described the Merck deal as "a stroke of genius", said: "We must evolve from a pharmaceuticals manufacturer selling pills to managing total pharmaceutical care. We could not do it without going through this important transaction."

Remedies for a global sickness ....Page 16
Kodak to return to core with drug sale ....Page 19
Eastman Kodak prepares for a new image ....Page 21

He said the deal marked a transition in the company's strategy that reflected the change in the business environment in the US. Rather than simply selling disease treatments, SmithKline Beecham would use economic data gathered from the millions of patients and potential patients on Diversified's books to "manage diseases".

SmithKline is the UK's second biggest drug company after Glaxo. The deal will not increase its drug sales directly, but aims to use Diversified to promote its products to drug buyers in preference to rival drugs.

The deal comes a fortnight before the expiry of the US patent on SmithKline's ulcer treatment Tagamet, once the company's biggest product and the world's largest selling drug.

United Healthcare, owners of Diversified Pharmaceutical, said it had been approached by a number of companies since the Medco deal took place ten months ago.

Mr Hugh Collum, SmithKline Beecham's finance director, said the deal was likely to reduce earnings by less than 3 per cent this year and next. The price is equivalent to almost 60 times Diversified's operating profits last year. However, Mr Collum said the purchase was justified by the rapid growth prospects.

Although Eastman Kodak did not name a firm buyer for its healthcare business, Elf Sanofi has first refusal on parts of it through joint ventures with the Kodak subsidiary Sterling Winthrop, bought for $5.1bn in 1988 in an auction against Roche. Elf Sanofi said yesterday the Kodak announcement was "an opportunity to go the final stage in merging the two businesses", adding that it was considering the sale of assets to finance a possible purchase.

Kodak's share price rose $2⅝ to $46⅜ in early trading, as the market welcomed its moves to reduce its heavy debt burden. Elf Sanofi's fell FFr43 ($7.37) to FFr975. SmithKline Beecham's share price rose 28p to 416p ($6.07).

Dutch ruling coalition faces losing majority in elections

By Ronald van de Krol in Amsterdam

The Netherlands' two ruling parties, the centrist Christian Democrats (CDA) and Labour, look set to lose their majority in parliament after yesterday's national elections, holding out the prospect of a three-party coalition for the first time since 1981.

Two smaller parties which exit polls indicated had made strong gains would play a crucial role in any coalition negotiations that lie ahead. The rightwing Liberals are projected to have gained eight seats for a total of 30, while D66, a left-of-centre party, is forecast to win 24 seats, double its number in 1989.

These four main parties share a broad consensus on economic, monetary and foreign policy issues. Where they differ most is on the vexed question of social security and how to continue paying for it at a time of rising unemployment and the ageing of the population.

The two most likely coalitions are Labour, CDA and D66, or a right-left alliance of Labour, Liberals and D66, which would shut the CDA out of power for the first time since 1918.

The CDA of prime minister Ruud Lubbers had been trailing Labour in the opinion polls but regained ground in the last few days before the election. It won two seats less than Labour, which won 36, according to exit polls and preliminary projections by Dutch television.

Both parties fell back sharply from the last general election in 1989, when the CDA won 54 seats and Labour 49 seats, giving them a governing majority in the 150-seat lower house of parliament.

The Dutch government said last night that it will formally put forward Mr Ruud Lubbers, the prime minister, as a candidate to succeed Mr Jacques Delors as president of the European Commission, writes Ronald van de Krol.

The confirmation of Mr Lubbers' bid for the post was made minutes after polling booths closed in the Netherlands' general election.

Mr Lubbers said five years ago that he planned to leave national government after the 1994 election, but refused to be drawn on his European ambitions until the election campaign ended.

The loss of support for the CDA, the linchpin of every government since the second world war, was caused mainly by the impending departure from national politics of Mr Lubbers, the Netherlands' longest-serving prime minister. His successor, Mr Elco Brinkman, did not have the same authority.

Coalition talks could take weeks or months, and it is possible that a new government will not be sworn in until the summer. The close finish between CDA and Labour means that both parties will be in the running to provide the next prime minister. Labour's candidate for the job is the current finance minister, Mr Wim Kok.

Last night's results also showed a rapid evaporation of support for the far-right Centrum Democraten (CD). The CD won three seats in 1989, but some opinion polls before the election had predicted as many as eight.

Two new parties representing pensioners won a total of eight seats.

PM 'will not resign' over corruption scandals

González digs in his heels

By Tom Burns in Madrid

Spain's embattled prime minister, Mr Felipe González, is determined to beat off calls to take the blame for growing corruption scandals involving former leading members of his administration.

A senior aide said yesterday Mr González had "absolutely no intention of resigning". Mr Miguel Gil, the government's spokesman, said political stability was assured because the Catalan nationalists had agreed to continue backing the government. "Their support is not in danger," he said.

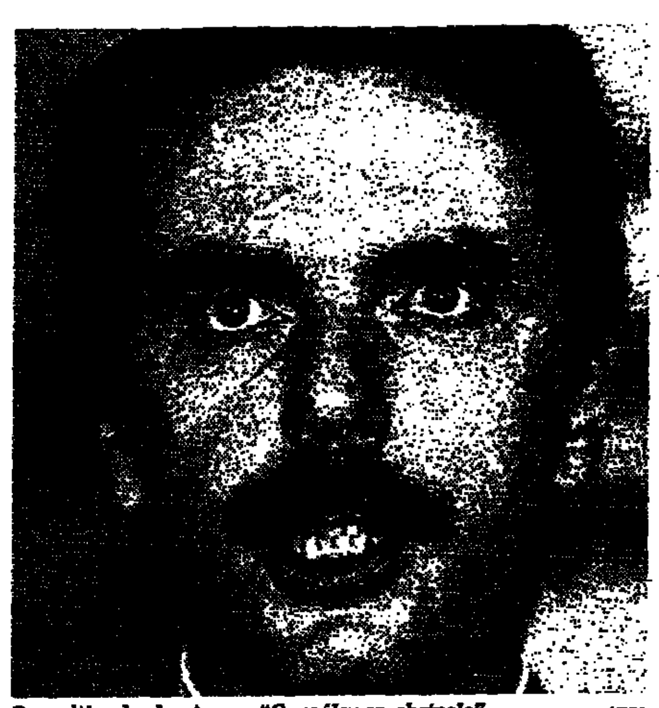
The 17 Catalan nationalist members of the Madrid parliament have now become the power brokers of domestic politics after their vote ensured Mr González's nomination as prime minister following last June's general elections, which left his Socialist party short of an overall majority.

The assurance of continued Catalan support was given on Monday by Mr Jordi Pujol, leader of Catalonia's home rule government, the Generalitat, in a telephone conversation with Mr González. Mr Pujol reiterated his decision to aid the "governability of Spain" at a later meeting in Barcelona with Mr Narcís Serra, the Catalan-born deputy prime minister. A former mayor of Barcelona, Mr Serra would be the politician most likely to succeed Mr González should the premier resign.

The Catalan leader's stand may have gained Mr González a breathing space in which he will seek to regain the political initiative in the face of continuing pressure from the main opposition party, the conservative Partido Popular.

Conservative leader Mr José María Aznar told the FT that Mr González had "become an obstacle in Spanish politics, an obstacle we have to overcome". Mr Aznar believes the government has been so discredited by the spate of scandals that Mr González's position is unsustainable. "It is not reasonable to ask now for new elections.... but I can envisage the prime minister will [first] hand over power to somebody else."

Unable to unseat Mr González in a parliamentary censure motion, Mr Aznar is pinning his hopes on next month's European elections when he expects that a clear conservative triumph "will accelerate developments". He forecasts that general elections in Spain will take place between the autumn and next spring.



Opposition leader Aznar: "González an obstacle" UPPA

Civil Guard on trail of its fugitive former chief

By David White in Madrid

The young man on duty outside the Civil Guard headquarters in Madrid fingered his automatic weapon and laughed nervously. No, the force would not be affected. But it was still "a blemish". People did not like it.

The "blemish" is the extraordinary story of Mr Luis Roldán, six months ago the Guard's chief, now a fugitive wanted for questioning and hunted by the paramilitary police he used to have under his orders.

Mr Roldán, 51, who managed to combine the post with extensive property purchases and a jet-setting lifestyle, was last year tipped as a candidate for interior minister. The man who got the job instead, Mr Antoni Asunción, handed in his resignation at the weekend over Mr Roldán's embarrassing disappearance, becoming the first senior victim of Spain's current scandals. Opposition politicians are now baying for more blood, including that of Mr Felipe González, prime minister, who appointed Mr Roldán.

The headquarters building was where Mr Roldán's business partner, Mr Jorge Esparza, would (according to the latter's evidence to a parliamentary committee) walk out with briefcases stuffed with money on his way to a bank. Mr Esparza said he did not know where the cash came from.

A Civil Guard general told the committee Mr Roldán would choose contractors for new barracks after calling them into his office. Mr Roldán has denied taking commissions.

Controversy also surrounds the use of "reserved funds", alleged to have been used to provide pay bonuses. Mr Roldán, who denies using these funds, has said the records have routinely been destroyed.

While in his post, Mr Roldán bought houses and other properties, mostly through a company called Europe Capital. He and Mr Esparza also travelled extensively. In one instance, confirmed by Mr Roldán, an official chauffeur drove his car to Switzerland for the use of his wife, who had travelled there by air.

The Civil Guard has not made such headlines since Lieutenant Colonel Antonio Tejero held up parliament at gunpoint in 1981.

The latest publicity has spoilt the forthcoming 150th anniversary of the 75,000-strong force, which polices the Spanish countryside and roads, protects official buildings and which has borne the brunt of Basque terrorism. The force's shiny black tricorn hats have given way to green cloth caps, softening the image of what the poet Lorca called "those patent-leather men with their patent-leather souls".

Mr Roldán, a Socialist party member until his recent expulsion, was the first civilian to head the force. For an administration already hit by allegations against a former Bank of Spain governor, the controversy has eclipsed all other affairs of government. Interviewed in hiding by the daily El Mundo, Mr Roldán said there were similar irregularities elsewhere in the Interior Ministry and other departments. "If I go to prison, I could easily not go alone."

Yeltsin aide wants pledges to the IMF relaxed

By John Lloyd in Moscow

President Boris Yeltsin's chief aide on the economy said yesterday that Russia could not fulfil International Monetary Fund conditions agreed for a \$1.5bn (£1.02bn) loan in March and that higher inflation was the only way to save the Russian economy from collapse.

Mr Alexander Livshits, who heads the group of economists on whom the Russian president relies for much of his advice, said in an interview that the reduction in inflation to between 7 and 8 per cent a month had been achieved too soon. "It is one thing to have it as a target for December, but to have it in March-April is destroying our economy."

The IMF agreed the systemic transformation facility on condition that the government increased revenues this year and kept expenditure at a target of Rbs183,000bn (£65.8bn).

But Mr Livshits said the bulk of expenditure had been absorbed by the energy and agricultural sectors, "the two most powerful lobbies in this country by far," and the rest was grossly inadequate for the needs of the economy.

"The IMF must learn the reality of the situation and see what is happening," he said. "You can of course continue with the policy of tight money, but it will mean that industry collapses. The policy must be loosened."

Mr Livshits, a former economics professor, said the government of Mr Victor Chernomyrdin appeared to lack the political will to undertake economic reforms or industrial restructuring beyond tightly controlling credit and money supply. He agreed the political impetus should come from Mr Yeltsin, but said: "We have a separation of powers here and the president doesn't want to issue orders – do this or do that in the economy."

Steep falls in production of around 25 per cent in the first quarter of this year continued in April, he said. The fall in production last month was 29 per cent, compared to 28 per cent in March. "April is usually not a bad month for production because there are no holidays, but May is bad [there are three days of public holidays and many take more] and so we can expect terrible figures for this month."

Mr Livshits admitted the official statistics for the economy were unreliable because they omitted or under-counted the private sector. But they gave an indication of what was happening in the state sector where, he said, "factories are just at a standstill".

Even in growing industries such as consumer electronics and white goods, production has plummeted this year, he said. Part of the problem was the huge level of inter-enterprise debts and the refusal of most concerns to supply parts or goods without pre-payment.

Mr Livshits called for a series of reforms to break up state enterprises and to end supply monopolies. He also proposed creation of a new commission, headed by a first deputy prime minister, to deal with strategic economic issues – paralleling the work of Mr Oleg Soskovets, at present the only first deputy premier, who heads a committee on operational issues. "If we had had such a commission, we wouldn't have had the budget we now have."

The struggle over the budget has only just begun. It has been passed "in principle" by parliament, which is still demanding fundamental changes, including an increase in expenditure of the kind Mr Livshits is proposing. But he said the budget might yet be passed because the powerful agrarian lobby was satisfied with the support it gave.

Bosnian Serbs test patience of Milosevic

By Laura Silber in Belgrade

Calls for peace and accusations of corruption against Bosnian Serb leaders in the Serbian media are fuelling speculation that President Slobodan Milosevic could turn against nationalists insisting on a Greater Serbia at any price.

Mr Milosevic's opposition to the politics of the Bosnian Serb leadership has been signalled by his wife, Mrs Mirjana Markovic, whose remarks have tended to foreshadow the next move by the Serbian president.

"The representatives of those Serbs who are mostly outside of Serbia and think war is their only option.... have no right to foist that option on all Serbs," she wrote last week in the popular magazine Duga.

"I am afraid that the Serbian people.... are at the point when they must become pacifists, if they want to survive," she added, making the point that Serbs from Serbia should define national politics.

Television, tightly controlled by Mr Milosevic, last week repeatedly warned Bosnian Serb leaders that war should not be their only option.

Implicit criticisms of their belligerent stance were accompanied by stinging accusations that Bosnian Serb leaders and their influential Belgrade mentors were involved in the huge financial scandal surrounding Dafiment bank, once vaunted at the biggest private bank in the Balkans. Mrs Dafina Milanovic, owner of the bankrupt institution, has made an "impromptu" revelation that even Mr Radovan Karadzic, Bosnian Serb chief, himself carried sacks of cash out of the bank, which owes Serbia's citizens hundreds of millions of dollars.

Such indictments of Mr Karadzic and the Bosnian Serb nationalists are being interpreted as feelers for the famously close Mr Milosevic to change allegiances.

But Mr Milosevic who rode to power on the mighty waves of Serbian nationalism may find it dangerous to separate his future from theirs.

In spite of three years of war in neighbouring Bosnia and Croatia, economic deprivation and political isolation, recent opinion polls reflect that most of Belgrade still supports the Bosnian Serb leadership. More than 51 per cent believe Serbs should keep the 70 per cent of Bosnia they currently control, according to one poll.

An overwhelming majority back the unification of Belgrade with Serb-held lands in Bosnia and Croatia. However, the pragmatic Mr Milosevic may now be calling for something else.

His foreign minister, Mr Vladislav Jovanovic, in a weekend interview, sent a message to the US that the "only realistic solution for Bosnia-Hercegovina is the creation of a wider state which would include Serbs and Croats".

This proposal to create a "new Yugoslavia" will set Mr Milosevic on a collision course with Serb nationalists who insist on ethnic partition and the creation of Greater Serbia.

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NEWS: EUROPE

EUROPEAN NEWS DIGEST

Ekostahl sale under threat

IG Metall, Germany's engineering union, and Riva, the Italian-owned private steel company, are locked in an eleventh-hour dispute which could disrupt the privatisation of Ekostahl, eastern Germany's largest steel mill. The dispute centres on the composition of Ekostahl's supervisory board after privatisation. The purchase contract, scheduled for signing last Monday, was postponed after the union and the family-owned Italian company failed to reach a compromise. The 11-strong supervisory board will be equally divided between IG Metall and Riva, with the remaining member holding a neutral position. However, according to union officials, Riva opposes IG Metall's nomination of Mr Hans Apel, a social democrat and former federal finance and defence minister.

The dispute has astonished officials principally because it took the Treuhand privatisation agency more than two years to find a buyer, and protracted negotiations with the European Commission, to back a DM1.1bn (£440m) restructuring programme which Riva will undertake. *Judy Dempsey, Berlin*

Progress in EU-Russia accord

The European Commission yesterday raised hopes that agreement over a trade and co-operation accord between the European Union and Russia could be reached in time for signing at the Corfu summit next month. A Commission spokesman said "excellent progress" had been made by Sir Leon Brittan, European commissioner responsible for external economic relations, and Mr Alexander Shokin, the Russian deputy prime minister, who met earlier this week to discuss the two remaining obstacles to the accord – the rules governing the trade in uranium and access for European banks to the Russian banking sector. However, he cautioned that the accord still needed to be approved by member states. France, in particular, is keen to protect its uranium producers. Mr Shokin and Sir Leon agreed to work on an exchange of letters which could pave the way for a compromise. *Emma Tucker, Brussels*

Italian prices edge upward

Italian consumer prices grew 0.3 per cent in April giving an annualised inflation rate of 4.1 per cent. The monthly rate was marginally up on March largely due to a rise in cigarette prices. But so far this year the biggest single rises have been in housing and health. The rise in housing costs in particular has almost doubled the index average. The prospective rate for the year as a whole is now running at 4 per cent against 4.2 per cent for 1993. The outgoing government hoped to have a year-end inflation rate running at an annualised 3.5 per cent. Economists indicated yesterday that the new government would inherit inflation rates still relatively high by EU standards and this made cautious management of Italy's timid recovery essential. *Robert Graham, Rome*

US union cash for Poland

Poland Partners, a new $65m (£44m) venture capital fund, backed by a US government agency and created to boost the private sector in Poland, will include five pension funds from US trade unions. Although the unions have been generally hostile towards overseas investment, US labour rallied around Poland's Solidarity movement during its days underground, and the relationship is still close, according to Mr Bob Kalaski, director of communications for the machinists' union.

The concept for Poland Partners originated after a speech in 1990 to US unions by President Lech Walesa and the fund has been strongly supported by the Overseas Private Investment Corporation, the US government agency. Opic has already backed 22 ventures in Poland involving US companies with $400m in financing and risk insurance, and $1.2bn in financing in the former eastern bloc. For this fund it will provide up to $39m in investment guarantees. The fund will be managed by the Poland Partners Management Company, which is owned by California-based Avalon Ventures, Company Assistance Ltd of Warsaw and Landon Butler & Co of Washington. *Nancy Dunne, Washington*

Greek ex-king fights seizure

Former King Constantine of Greece said yesterday he would launch a legal battle against the Greek government's decision to seize his property and strip his family of their passports. "I will certainly claim my property with all legal means provided by the [Greek] constitution and laws," he said in an interview with the Athens newspaper Apogevmantini. Last month the Greek parliament approved a bill giving the state control of Constantine's Mon Repos estate on the island of Corfu, a summer palace in Tatoi north of Athens, and hundreds of acres in Polydendri in central Greece. Most other property owned by the former royals before they fled Greece had been given to the state to cover unpaid taxes. *Reuter, Athens*

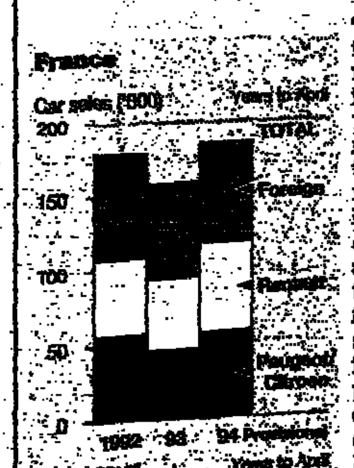
Nagorno-Karabakh toll rises

The International Committee of the Red Cross yesterday said that recent fighting between Armenia and Azerbaijan over the disputed enclave of Nagorno-Karabakh had caused hundreds of casualties and 50,000 people to flee their homes. ICRC spokesman Pierre Gauthier said most of the dead and wounded were soldiers. The agency was awaiting word from staff on the front line on exact numbers.

The ICRC said it had sent tents, foods and medicines to the area but was stretched by the sheer numbers of people who had fled their homes in Azerbaijan over the past three weeks. Before the latest exodus there were about 600,000 displaced people in Azerbaijan as a result of the six-year civil war. In a statement, the ICRC said it was "seriously concerned about the serious turn of events in the northern and eastern fronts in the Nagorno-Karabakh conflict". Nagorno-Karabakh is populated mostly by ethnic Armenians. *AP, Geneva*

ECONOMIC WATCH

French new car sales accelerate



The recovery in new car sales in France accelerated last month with a 17.2 per cent increase year-on-year to 184,900, according to preliminary figures from the industry. Sales in the first four months were 13.8 per cent higher at 638,300 than in the corresponding period a year ago. The French motor industry has revised upwards its forecast for west European sales this year to 11.79m, an increase of 3 per cent compared with its previous forecast for a rise of only 0.8 per cent. Peugeot Citroën and Renault both gained ground in their domestic market in April with year-on-year increases of 22.6 per cent and 27 per cent respectively and a combined rise in domestic market share to 63.6 per cent. *Kevin Done, Motor Industry Correspondent*

■ West German industrial output fell in March by 0.8 per cent, adjusted for price and season, from a revised February figure. It also declined by 0.8 per cent from March 1993, according to a preliminary report by the Economics Ministry. The ministry had revised the industrial output index for February to 111.5 from a preliminary 111.4.

■ Retail sales in Switzerland rose an inflation-adjusted 8.8 per cent in March year-on-year compared with 3.1 per cent the month before, the federal statistics office said yesterday.

■ France's official reserves of gold and foreign currencies rose by FFr1.46bn (£170m) in March to FFr317.84bn, according to official figures.

Left thrives in Hungary's disenchanted soil

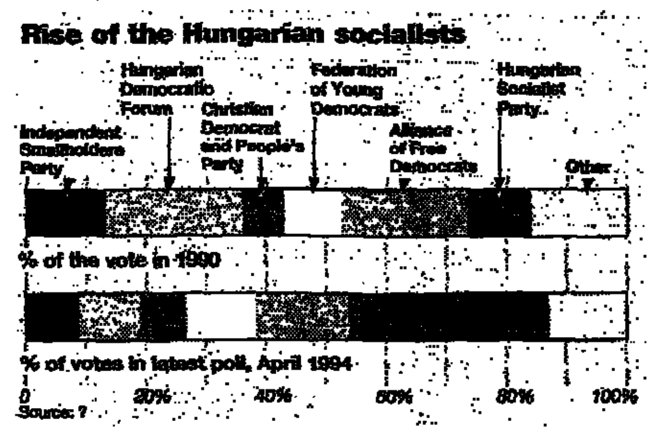
Ex-communists are set for a comeback in Sunday's elections, writes **Nicholas Denton**

The left, fresh from electoral success in Lithuania, Poland, Russia and Ukraine, is poised for a comeback in Hungary's parliamentary elections next Sunday. Voters, disillusioned with four years of a conservative coalition led by the Hungarian Democratic Forum, are turning to the former communists of the Hungarian Socialist party.

The Socialists, who scored just 11 per cent in the 1990 national vote, have surged to well over 30 per cent in latest opinion surveys. "I did believe the pendulum would swing back. I did not believe that it could swing back so far," says Mr Viktor Polgar, head of the Socialists' Budapest campaign.

The Socialist party is the successor to the communist regime that ruled Hungary, often brutally, for 40 years. Mr Gyula Horn, the 61-year-old Socialist leader, went to college in the Soviet Union and joined the "padded coats," the volunteers who helped put down the 1956 uprising against communist rule.

Government television has taken a literal approach to the search for skeletons in the Socialists' cupboard. One TV documentary covered the search for prison cells, torture chambers and bones beneath Socialist party headquarters in Budapest. Another broadcast an account of Mr Horn kicking in the teeth of a "counter-revolutionary" prisoner.



But the TV campaign against the Socialists, so close to the vote and so reliant on unsubstantiated accusation, has lacked credibility. "The attacks actually help us," Mr Andras Bard, Socialist spokesman, admits cheerfully.

In any case, many Hungarians are inclined to forgive and forget. "People change," shrugs Eva, a Forum voter in 1990 and a Socialist supporter now.

Horn the young communist became Horn the reformist foreign minister of the last communist government, who let East German "tourists" out through Hungary to the west and so helped bring down the Berlin wall.

A despairing conservative official asks: "Do people forget so quickly?" Yes, the bad things, at any rate. Voters associate the left less with the horrors of the 1950s and more with the easy going "goulash communism" that made Hungary the "jolliest barracks in the socialist camp".

"People who lived in places with the toilet at the end of the courtyard were able to move into a decent tower block and live in civilised surroundings," says Mr Istvan Dobrogi, a worker at the light-bulb maker, Tungsram, pensioned off after General Electric of the US bought the company.

"There was a bathroom. They could pay the electricity bill and the rent, keep a small plot and maintain a Trabant. Only a few people can manage that now."

Living standards for most pensioners and state employees have fallen over the last four years as gross domestic product has shrunk by 20 per cent. Unemployment has now risen to 12.2 per cent of the labour force. Mr Janos Plyevszky, a car mechanic, complains: "Now there is no social safety net, at least then there was. There are terrible layoffs. They turn off the electricity if people can't pay."

Electricity bills do not preoccupy the mobile phone wielding drivers in Mercedes cars who cruise through central Budapest past boutiques, western brand-name stores, gleaming new hotels and banks. But the new rich are few and their conspicuous consumption, though impressive to foreigners, is galling to many less fortunate locals.

Only 18 per cent of Hungarians polled say they are better off than before, fewer than in any other east European country except Russia. The conservative government takes a leaf out of the standard practice for beleaguered western governments and argues that recession has been as bad, if not worse, among all Hungary's eastern neighbours.

To no avail. "Before the collapse of communism Hungarians compared themselves to Romania and they thought they were doing well," says Mr Peter Tolgyessy, a prominent politician of the liberal Free Democrats. "Now they compare themselves with Austria."

The Socialists are the beneficiaries of the public's disgruntlement. "We get our support from the fact that most people have had it up to here," says Mr Polgar.

It is not fair, respond Hungary's increasingly despondent conservatives. It was the communist regime that built up eastern Europe's highest per capita debt and left their successors to repay it. "For years and years we consumed more than we produced," says Mr Tamas Katona, state secretary at the prime minister's office. "Ordinary people are paying the price for the previous system." And the conservatives, he might have added.

For a party that once believed in monolithic dictatorship of the proletariat, Hungary's Socialists attract a surprising social mix, writes Nicholas Denton. State employees, pensioners and the unemployed, the losers in the transition to a market economy, are their natural and most numerous supporters. But opinion polls show the Socialists command the most concentrated support among "top leaders". "If the new Hungarian bourgeoisie have a party at all, it is the Socialist party," says Mr Peter Tolgyessy, a liberal politician. "The Socialist party has two wings: one is like the British Tories and one like Labour in the 1950s."

For Hungary's business élite did not spring into life instantaneously when the Soviet bloc collapsed in 1990. In Hungary economic liberalisation began as far back as 1968 and the nomenklatura, leading communists, had time to translate political power into economic weight.

The Socialists have a constituency that stretches from the new rich to the unemployed coalminer. Mr Laszlo Bekesi, the Socialists' former and perhaps future finance minister, matches any conservative or neo-liberal for fiscal orthodoxy. Socialist campaign posters promise to "get the expertise back into government". The line has broad electoral appeal, says Mr Gaspar Miklos Tamas, a liberal commentator. "Voters see the Socialists as the aristocrats." At the same time, however, Mr Gyula Horn, the Socialist leader, has led pensioners and state employees to believe he can halt the deterioration of living standards.

LEGAL NOTICES

AETNA CAPITAL MANAGEMENT INTERNATIONAL LIMITED
(registered in England No. 610001)
Proposed payment out of capital pursuant to Companies Act 1985, Section 171

NOTICE is hereby given pursuant to Section 175 of the Companies Act 1985 (the "Act") that:

(1) AETNA CAPITAL MANAGEMENT INTERNATIONAL LIMITED (the "Company") has by a resolution in writing made pursuant to Section 381A of the Act on 28 April, 1994 approved a payment out of capital for the purpose of acquiring by purchase 1,050,000 ordinary shares of £1 each in the capital of the Company.

(2) The permissible capital payment (as defined in Section 171 of the Act) for such shares is £1,035,786.

(3) The statutory declaration of the Company's directors and the report of the Company's auditors required by Section 174 of the said Act in respect of such payment out of capital are available for inspection by any member or creditor of the Company at the Company's registered office: 85 London Wall, London EC2M 7AD during business hours on any day (except a Saturday, Sunday or public holiday) up to and including 2 June, 1994.

(4) Any creditor of the Company may at any time up to and including 2 June, 1994 apply to the High Court under Section 176 of the said Act for an order prohibiting such payment out capital.

Dated: 5 May, 1994
Frances Fitzherbert-Brockholes
Secretary
85 London Wall, London EC2M 7AD

NEWS: THE AMERICAS

US indicators point to robust growth

By Michael Prowse in Washington

The US index of leading indicators rose 0.7 per cent in March, more than expected and suggesting that economic growth will be robust during the next six months, the Commerce Department reported yesterday.

Separately, the National Association of Purchasing Managers released a bullish half-yearly forecast, predicting 7 per cent growth of corporate revenues in cash terms this year and a 10.9 per cent increase in capital spending. Purchasing managers expect the price of goods they buy to rise only 1.5 per cent in 1994.

Mr Ron Brown, commerce secretary, said the jump in the leading index, led by a sharp increase in the length of the average working week, indicated the economic recovery was not losing momentum.

Nine of the 11 components of the leading index rose in March, with positive contributions from higher commodity prices, an increase in building permits and orders for durable goods, and a drop in weekly claims for jobless benefits. The overall index rose 0.4 per cent in January and was revised to show a zero change, rather than a 0.1 per cent decline, in February.

The jump in the index showed "the economy continues to hit on all cylinders," said Mr Martin Regalia, chief economist of the US Chamber of Commerce.

Most forecasters believe preliminary reports of real economic growth at an annualised rate of 2.6 per cent in the first quarter, against 7 per cent in the fourth quarter, understated the US economy's momentum.

Purchasing managers were considerably more optimistic about the outlook for 1994 than they were last December, Mr Robert Bretz, head of the NAPM's business survey committee, told the association's annual conference in Atlanta yesterday. In December, purchasing executives forecast an increase in revenues of 4.7 per cent this year.

Purchasing managers said operating rates at member companies had risen from 83.7 per cent last December to 87.9 per cent, the highest rate since they began to compile operating rate figures in 1989. They said companies would respond to capacity shortages by increasing capital spending by nearly 11 per cent in cash terms this year.

Their survey of export intentions was the most bullish since it began in 1987: 64 per cent of members said exports would rise this year, 7 per cent said exports would decline; 79 per cent of member companies export regularly.

Castro targets illicit profits

By Canute James in Kingston

The Cuban government is expected to implement a series of fiscal and monetary measures in the next six weeks, after a two-day meeting of the National Assembly.

President Fidel Castro said at the end of the meeting, late on Monday, that the success of the measures would depend on a new law to curb the country's thriving black market and allow the confiscation of illicit profits.

Mr José Luis Rodríguez, finance minister, outlined a series of proposals but said they might not be the ones to be adopted and implemented by the government.

There was no indication of reforms to increase production or build up the supply side of the economy, but the series of proposals included measures to mop up excess liquidity, to reduce a growing fiscal deficit and to give the state increased access to the hard currency circulating on the island.

The government is expected to impose a wider income tax, extending it to many more than the few thousand Cubans who now pay. It also plans to impose taxes on incomes earned abroad.

The proposals also envisage increases in bus fares and in water and postal rates. Subsidies on a range of food and medicines would be cut, leading to higher prices. Prices for alcohol, cigarettes and petrol for private vehicles would rise. Free entry to sporting and cultural events would end. The government would also invite Cubans to put their money on fixed deposit.

The government is contemplating creation of a new currency. This would be convertible, as well as valid at the special and relatively well-stocked Cuban shops which accept only hard currency. Cubans would be encouraged to exchange foreign currency for the new peso, thus putting more of the hard currency in the country under official control.

The government has been increasingly concerned at the rapid devaluation of the existing peso. The official rate keeps it at slightly more than a US dollar, but the street rate is close to Ps100:$1. The government says nearly 12bn pesos are in circulation, four times the amount needed.

Many of the fiscal measures outlined would be aimed to reduce the monetary overhang. This would be difficult, given the rate of monetary creation implied by the government's own figures – a Ps4.2bn budget deficit last year and nearly 70 per cent of state enterprises losing money.

Mr Castro said the new measures would not be popular, but that a "disaster" would ensue if they were insufficient.

He said that the success of new measures would depend on the crackdown on black marketeers, who have been doing thriving business, mostly in food, because of shortages in the shops. The government intends to seize their property and profits.

Cuba's economy has shrunk by half since the collapse of the Soviet Union, the Caribbean island's main trading partner. The problems were compounded by the failure of the Cuban sugar harvest last year and a significant reduction in foreign earnings.

Clinton toughens stance against Haitian junta

By Jurek Martin, US Editor, in Washington

Controversial exile: President Jean-Bertrand Aristide has trouble keeping support as his absence from Haiti continues AP

President Bill Clinton yesterday refused to rule out the use of force to oust the Haitian military junta from power. "It's time for them to go," he said, before leaving for Atlanta and an internationally televised news conference on foreign policy.

However, he emphasised that the first step in renewed US pressure on Haiti would be to have the United Nations Security Council agree to tighter economic sanctions, aimed more precisely at the assets of junta members and of prominent civilian supporters.

"We've tried other initiatives and they have not worked," Mr Clinton conceded, "so we are now doing this sanctions regime as recommended by President [Jean-Bertrand] Aristide and others."

Ms Dee Dee Myers, White House press secretary, said that military intervention in the Caribbean country was "a little far down the way" and would only be undertaken with congressional approval under the War Powers Act.

Mr Clinton has come under growing pressure, particularly by the black caucus in Congress, to act as evidence of atrocities in Haiti proliferates. Father Aristide, exiled by the military coup of October 1991, has described US policy towards his country as tantamount to racism.

The administration's stance came under fire yesterday from ex-president George Bush, whose general policies towards Haiti Mr Clinton has followed, and from Mr Lawrence Pezzullo, US former special envoy who resigned, under pressure, last week.

In an interview with a Houston newspaper, in which he confessed to a change of opinion, Mr Bush said it was time for "a significant shift" in US policy. This should combine intensified diplomatic efforts with an end to US support for the return of the democratically elected President Aristide on the grounds that it was now clear he lacked sufficient support in Haiti itself. However, Mr Bush added, it would be "a tremendous mistake" for the US to intervene militarily because "no US lives are at risk in Haiti today".

Mr Pezzullo, heavily criticised by supporters of Fr Aristide, also warned – in a letter to Mr Warren Christopher, secretary of state – of "my grave concern that we are heading down a path towards unilateral military intervention".

The White House yesterday declined comment on a report that it was thinking of sending US military officials to seek to "retrain" the Haitian army and to provide some protection for humanitarian food supplies in Haiti. A similar, lightly-armed mission was aborted last year off Port-au-Prince in the face of junta-organised protests.

Paraguay suffers its first general strike in 35 years

By John Barham in Buenos Aires

Paraguay's first general strike in 35 years has claimed one life and clashes with security forces have caused 20 injuries. Police shot a peasant in the interior of the country participating in Monday's general strike, in which protesters blocked roads throughout the country and demonstrated in the capital Asunción.

They demanded 40 per cent wage rises, a halt to the country's privatisation programme and the suspension of economic integration with neighbouring countries. The army deployed tanks to keep the roads open, but transport workers paralysed the bus service, forcing shops and offices in Asunción to close.

The one-day strike followed months of growing tension in the interior, where peasants are demanding land reform and government financial support to compensate for falling cotton prices.

Growing trade links with Paraguay's large neighbours, Brazil and Argentina, through the Mercosur customs union is also threatening smaller Paraguayan companies.

This was the most serious challenge yet to President Juan Carlos Wasmosy, who was elected last year. Mr Wasmosy's Colorado party backed General Alfredo Stroessner during his 1954-89 military rule, but is now committed to democracy and market reforms.

Pact aims to wipe out overdue foreign interest payments

Ecuador agrees bank debt deal

By Stephen Fidler in London and Raymond Colitt in Quito

Ecuador and its leading bank creditors have reached an agreement in principle on a fundamental restructuring of its foreign bank debt. The deal is aimed at erasing overdue interest with foreign creditors for the first time since 1987.

The accord, reached late on Monday by government negotiators and a committee of banks led by Lloyds Bank, covers about $4.5bn (£3.08bn) of capital and up to $3bn of overdue interest.

Announcing the accord in Quito, President Sixto Durán Ballén emphasised that the country's status as a delinquent debtor had resulted in "enormous difficulties in attracting foreign investment, generating employment and obtaining the necessary technology to compete internationally".

Under the Brady-style agreement, holders of debt principal will be able to exchange it either for 30-year bonds carrying a floating interest rate and a 45 per cent discount to face value, or for "par" bonds with interest payments stepping up from 3 per cent to 5 per cent in the 11th year.

As is common in Brady agreements – named after former US Treasury Secretary Nicholas Brady – the principal and one year of interest on the concessional bonds will be guaranteed by US Treasury bonds to be held in escrow as collateral.

The government claimed that it also achieved a 20 per cent reduction on overdue interest of $3.1bn, although the calculation is based in part on contractual interest penalties which are generally not levied on such reschedulings. Most of the back interest will be repaid by the issue of 20-year bonds with a 10-year grace period before principal repayments are due.

Mr William Camposano, senior vice-president at Lloyds in New York, said a full term sheet of the agreement should be in place and an international roadshow under way "if all goes well" by the end of June. The government hopes to complete the deal this year.

The government is expected to secure a standby loan agreement from the International Monetary Fund this month, and possibly also a rescheduling of its 1993 and 1994 maturities to the Paris Club of creditor governments.

A maximum of $800m is available to provide initial payments and purchase collateral for the agreement. Ecuador never fully consolidated its bank debt, and though it agreed partial reschedulings in 1983, 1984 and 1985, it ceased fully servicing its debt in 1987.

In the secondary market, the price of Ecuadorean debt rose yesterday before easing back later. Bankers close to the agreement were keen to avoid the negative reaction from banks that followed the recent agreement in principle with Poland.

They emphasised that there would be no reallocation of choices once banks had made their initial choice and that all the collateral for the exchange bonds would be available immediately. This contrasts with the recently completed Brazilian agreement. They argued that there had been no big concessions on interest arrears.

One said that in negotiating the agreement, the government had been aware that it would be "presenting the package to a broader variety of creditors than would have been the case a few years ago".

This is a reference to the large number of private investors in such bank debt. These include the Dart family of the US, who refused to join the recent Brazil package and who are widely thought to hold positions in Ecuadorean and Polish debt.

The accord will not need ratification by Congress, but some opposition politicians, while welcoming the agreement, noted that the current modernisation law forbids the use of the debt in privatisations.

NEWS: WORLD TRADE

EU tackles imports of broadcasting cameras

High duties against Japan

By Guy de Jonquières, Business Editor

The European Union has imposed definitive anti-dumping duties of as much as 96.8 per cent on imports of broadcasting cameras made by five Japanese electronics companies.

The duties are among the highest in any recent EU anti-dumping action against Japanese imports.

The duties were imposed after an investigation by the European Commission of complaints by BTS, part of Philips of the Netherlands, and Thomson Broadcast of France, which are Europe's only makers of studio video-cameras.

The investigation found that Japanese exporters had increased their share of the EU studio camera market from 52 per cent in 1989 to 70 per cent in 1992, while the share of European producers fell from 48 per cent to 30 per cent.

The Commission said the market share gains were due to unfair pricing by the Japanese companies. It put at 21 per cent to 60 per cent the "dumping margins" on the products – the gap between prices in the EU and Japan. It said none of the Japanese companies disputed this finding.

However, Sony, one of the Japanese companies affected by the EU action, accused the Commission of failure to take into consideration price differences due to varying product specifications and service provisions. It said the duties would result in "significant" price increases.

The dumping duties on Sony cameras have been set at 62.6 per cent; those on products by Ikegami Tsushinki and Hitachi Denshi are 82.9 per cent and 52.7 per cent.

Duties of 96.8 per cent have been imposed on products by Matsushita and JVC, which the Commission said did not co-operate in its investigation.

Sony, the leader in the world broadcasting camera market, said many of its customers had lobbied on its behalf during the EU investigation.

The Commission said several users of broadcast cameras had said European products were inferior to those from Japan, but had not substantiated this claim.

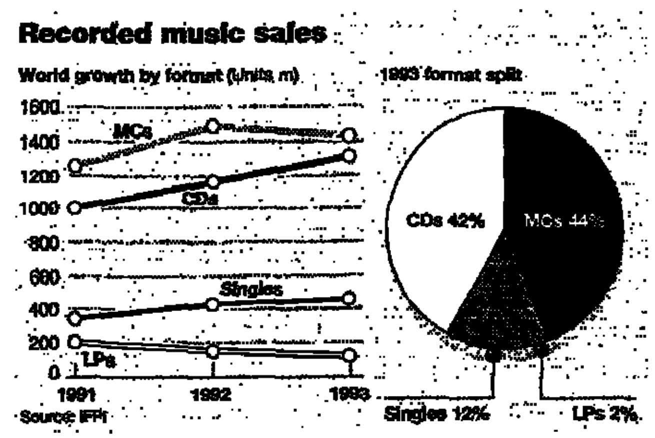
The Commission also rejected users' objections that the duties would force them to switch to European cameras which were technically incompatible with Japanese ones.

Capital Group Studios, a London indpendent television production studio which lobbied against the duties, said yesterday that the decision would put it at a competitive disadvantage by raising the prices it had to pay for equipment.

The company said the most sophisticated broadcast camera technology had long come from Japan, though BTS had recently launched a range of technically advanced products.

Sales of CDs near cassette total

By Michael Skapinker, Leisure Industries Correspondent



International unit sales of compact discs rose by 19.4 per cent last year to 1.39bn, raising the prospect that the CD will soon replace the audio cassette as the world's principal music carrier.

Unit sales of cassettes fell 2 per cent to 1.44bn, according to figures from the International Federation of the Phonographic Industry, which represents music companies worldwide.

Although overall cassette sales remained higher than those of compact discs, sales had begun to decline for the first time in 1993, the federation said. Nevertheless, CDs now significantly outsell cassette tapes in all the biggest music markets, apart from Mexico.

CD units sales rose by 21.5 per cent in the year. The value of the total world market rose by 5.9 per cent, suggesting that most of the CD volume growth was reported in the budget and mid-price sectors.

Unit sales of vinyl record albums fell 30 per cent to 80m. The federation said the vinyl album had almost disappeared from all the developed music markets.

The total value of recorded music sales last year rose 5.9 per cent to $30.5bn (£20.2bn).

Poorer countries grab more investment

By Frances Williams in Geneva

Developing countries are snatching a growing share of international investment and this trend is likely to continue, according to a report by the United Nations Conference on Trade and Development.

Flows of foreign direct investment (FDI) to developing nations reached record levels of nearly $50bn in 1992 and about $70bn in 1993, Unctad estimates. As a proportion of total FDI flows, they rose from 33 per cent in 1992 to 37 per cent last year as overseas investment in the industrialised world continued to fall.

The report, presented to this week's meeting in Geneva of Unctad's Commission on Transnational Corporations, notes that Asia continues to be the largest host developing region while flows to Latin America have increased since the late 1980s. Most African nations, and least-developed countries, have seen FDI flows stagnate or decline.

Unctad attributes the rapid expansion of FDI to the strong economic performance of many developing countries as well as to privatisation and more open equity markets. However, FDI growth had created relatively few new jobs in multinational corporations worldwide, fuelling criticisms that multinationals were reshuffling jobs away from rich countries.

● Talks restart this week in Geneva which aim to open individual country markets in three services sectors – maritime transport, labour movement and basic telecommunications. Trade officials agreed to continue the talks last December when the rest of the Uruguay Round was completed.

The negotiations on freer labour movement to supply services abroad, a priority area for developing countries, are due to be wrapped up next year, in parallel with talks on financial services. The negotiations on shipping and telecoms will extend until 1996.

Washington sets date for Tokyo progress on trade

The US told Japan's new government yesterday that the two countries must make progress on trade before the July meeting of the Group of Seven leading industrial countries in Naples, and Japan promised to seek a solution, Reuter reports from Cairo.

Mr Warren Christopher, US secretary of state, delivered the message during a meeting in Cairo with Mr Koji Kakizawa, Japan's foreign minister.

It was the first high-level contact between the two allies since a new government was installed in Tokyo. The two were in Cairo for today's scheduled signing of the Israel-PLO agreement on Palestinian self-rule.

Mr Christopher said the US was prepared to be understanding during this transition phase as the new government established itself and developed its policies.

But at a news conference with Mr Kakizawa, he said: "It's quite important that we make as much progress as possible before the G7 meeting in Naples so we have a good report to give to the other leaders of the world at that time."

Mr Kakizawa said: "We agreed that the two countries have to make further efforts" following talks between then-foreign minister Mr Tsutomu Hata, now Japan's new prime minister, and Mr Mickey Kantor, US trade representative, in Marrakesh at a recent meeting to conclude the Gatt Uruguay Round.

Mr Christopher noted that Mr Kanter raised with Japan in Marrakesh three questions on the framework agreement that the two sides are negotiating to provide greater access to Japan's markets for American businessmen.

He said Mr Kakizawa told him the answers would be forthcoming.

Japan has a trade surplus of more than $50bn with the US, which has been trying to force Tokyo to open up its markets.

Turkish-US joint arms venture jams

John Murray Brown on problems of a home-grown defence industry

Costly delays of Turkey's largest defence industry collaboration project could be ironed out this week when US and Turkish officials gather at the US army's ballistics testing centre at Aberdeen in Maryland for a week-long demonstration of Turkey's armoured personnel carrier produced by FMC of the US.

This unusual move follows an intervention by General Doğan Gureş, the Turkish chief of general staff. Turkish concern about the quality of the FMC vehicle's armour follows complaints by the Turkish land forces, which have refused to take delivery from the FMC plant outside Ankara where more than 400 vehicles await collection.

The dispute has meant FMC has not been paid since November. The company has informed the Turkish authorities it is setting off its debt payments against some $60m worth of debts owed by SSM, the government procurement agency, for vehicles which FMC has already produced. With these amounts denominated in Turkish lira, company officials estimate that as a result of the recent lira devaluation the delay in payments has cost FMC an additional $15m. With no response, FMC has stepped up the pressure and in February took its case to the international court of arbitration in Vienna.


A version of FMC's armoured infantry fighting vehicle

The twists and turns of this $1bn deal – the first co-production joint venture managed by the civilian-run SSM – provide a telling snapshot of the problems of a homegrown defence industry. The project has been the subject of the conflicting aims of cost and efficiency. FMC also seems to be caught up in the rivalry between the civilian-run procurement authority and the Turkish military over defence spending.

Despite cuts elsewhere in Europe, Turkey's defence sector has continued to attract a growing share of the budget. But the issue has become particularly acute at a time when the economy is under strain and the Kurdish insurrection in the country's south east has reached a new intensity. The challenge to the military's shopping list has intensified with the appointment of a new head for the SSM, Mr Yalçın Burcak, a former Treasury official, who has put all spending on hold and is reviewing on-going projects.

The FMC contract when agreed in 1987 was to deliver 1,698 vehicles by August 1997. The project was a joint venture with the local Nurol group – the target was to achieve a local manufacturing content of about 70 per cent. Some 200 vehicles have been produced, some of which were deployed to support the Turkish troops in UN operations in Somalia. Others are in use in the Turkish security forces' 10-year-old counter-insurgency operations against Kurdish rebels.

However, since the summer of 1992 not a single completed vehicle has left the Gölbaşı factory. Defence experts say the cause of the problem was SSM's decision in 1991 to change the contract terms. The original contract was a turnkey arrangement, under which FMC would deliver the completed vehicle to the Turkish army.

Now SSM has decided it will furnish such equipment as the engine, the gun turret and the night-sighting equipment from its own sub-contractors.

Delays followed, some of which were not of SSM's making. For instance, the 25mm gun for the armoured fighting version was originally to be supplied by Oerlikon of Switzerland but the contract was discontinued after the Swiss parliament placed an arms embargo on Turkey because of its heavy handling of Kurdish unrest.

The latest row concerns armour quality and follows a test at the Turkish army's own centre. FMC says the testing was unscientific. It claims the vehicle meets specifications of the contract and the armour quality is exactly the same as that on the vehicles supplied to the Belgian military.

However, some defence experts say the army has deeper reservations, and is using the FMC issue to signal a more general discontent with the way SSM, a civilian authority, is now in charge of what has traditionally been part of the military's preserve.

Last-minute row hits Gaza pact run-up

By Mark Nicholson in Cairo

A last-minute row over details of an historic accord to withdraw Israeli troops from Gaza and Jericho yesterday soured final preparations for today's scheduled signing of the agreement, locking both sides into a further and recriminatory round of negotiations.

Israeli officials insisted the signing would go ahead as planned, even if the outstanding disputes were not settled. "Time has its limits and tomorrow at 11 o'clock we shall sign," Mr Shimon Peres, Israel's foreign minister, said in Cairo.

Mr Yitzhak Rabin, Israel's prime minister, and Mr Yassir Arafat, Palestine Liberation Organisation chairman, were due to meet last night in a final effort to resolve the differences under the pressure of expectation and potential embarrassment created by the arrival of 2,500 dignitaries and a host of foreign ministers to witness today's planned event.

The last-minute disagreement occurred when PLO officials claimed Israel had "reneged" on more than 20 detailed points of the agreement.

Mr Arafat accused Israel of "manoeuvres to obstruct the signing", prompting Israeli officials to blame the disagreements on "a last attempt" by the PLO "to get a bit more".

The points of disagreement included whether the Palestinians could issue their own postage stamps and have their own phone codes for Gaza and Jericho, and a dispute over the length of validity of proposed Palestinian travel documents.

Israel had balked at the inclusion of Mr Faisal Husseini, a Palestinian leader from Jerusalem, on the proposed list of 25 Palestinians to constitute the Palestinian authority which will administer limited self-rule until elections due in October. Israel says no Jerusalem-based Palestinians must serve on the body.

PLO and Israeli negotiators had left Mr Rabin and Mr Arafat to resolve two final points of disagreement: whether a uniformed Palestinian guard would be allowed on the Allenby Bridge linking Israel and Jordan, and the delineation of the area around Jericho to be ceded to Palestinian control. The PLO had been seeking more than twice the 54 sq km offered by Israel.

Mr Rabin's spokesman, Mr Ben Ari, said it was unclear whether the two leaders would announce any agreement on this and other outstanding issues before this morning.

The 200-page document, entitled Agreement on the Gaza Strip and Jericho Area, would give the Palestinians their first limited degree of political and economic autonomy since the Israeli state was created in 1948, committing Israel to withdraw troops from land claimed by the Palestinians and occupied by Israeli forces during the 1967 Arab-Israeli war.

The agreement is already 20 weeks behind the schedule under which Israel should have completed its military withdrawal by April 13.

Once signed, the deal would prompt the immediate conclusion of Israeli military withdrawal from Gaza and Jericho. Under a draft text, Israel will complete the withdrawal within three weeks of signing.

World Bank plans $1.2bn Palestinian aid

By George Graham in Washington

The World Bank has produced a $1.2bn (£820m) emergency assistance programme designed to yield improvements over three years in living standards in the occupied territories of the West Bank and the Gaza Strip.

The programme is intended to serve as a sketch map to help co-ordinate aid flows from a wide range of donors, with the hope of avoiding some of the problems that could follow as money is pumped into a region with only rudimentary governmental and institutional structures.

"It is in one sense a blessing not to have a long history of government bureaucracy. The negative side is you don't have any institutional structures," said Mr Ram Chopra, World Bank director in charge of the occupied territories programme.

The programme proposes investing $234m for Gaza and $366m for the West Bank over the next three years in infrastructure projects such as water, sewers, transportation, electricity and education, as well as $300m to support private-sector development of housing, telecommunications and industry.

But it also includes an unusual $225m start-up expenditure programme intended to provide temporary funding for a new Palestinian central administration, and to finance a social safety net through the public sector and non-governmental organisations (NGOs) already working in the area.

"It is critical in this period to work with existing institutions and programmes, composed mainly of municipal structures authorised under the Israeli government, and the NGOs," Mr Chopra said.

The World Bank has been working with the Palestinian Council for Economic Development and Reconstruction, set up by the Palestinian assembly last year to manage economic issues in a transition period.

The emergency assistance programme represents a first tranche of aid commitments from donor countries to the occupied territories totalling $2.4bn over four years.

Mr Chopra said the Bank's task force had examined proposals totalling about $2.8bn, but had cut them to $1.2bn to include only projects with the most immediate impact and which could be effectively implemented.

"That does not mean the ones we did not include are not a priority; they may just not have been ready," he added.

Earlier Palestinian estimates of the money needed went as high as $10bn, but Mr Chopra said that included projects over a much longer period, as well as private-sector investment.

Official statistics suggest an average annual income of around $1,275 per capita for Palestinians in the occupied territories, higher than in Jordan and more than double Egypt's income level.

But World Bank studies showed that services such as power, water and sewerage are often on a par with the least-developed countries.

Right-wing Israeli women mock PLO and Hamas activists during protests yesterday against the Jericho-Gaza plan AP

Arafat faces storm over self-rule jobs

By Julian Ozanne in Jerusalem

Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, is likely to face a storm of controversy among Palestinians in the occupied territories over his appointments to the Palestinian national authority almost immediately after he seals today's Palestinian self-rule agreement.

Details of Mr Arafat's provisional list for the 24-member authority, which will govern the Gaza Strip and West Bank enclave of Jericho before elections due later this year and which will act as a de facto cabinet, reveal that he is determined to stack it with loyalists and members of the Palestinian diaspora.

Palestinians who live in the occupied territories are critical of the agreement and deeply suspicious of their leaders who have lived in exile for several decades. The "insiders" want a real slice of power in the self-rule authority.

Officials of Mr Arafat's Fatah faction of the PLO have warned of a mutiny unless Mr Arafat includes many of the younger local leaders who emerged during the intifada – or uprising.

However, according to senior PLO officials in Cairo and Jerusalem the authority, to be headed by Mr Arafat, will be largely drawn from outside the territories and from within Mr Arafat's loyal political factions.

The list includes Mr Hakam Balawi, PLO ambassador to Tunis, who will be in charge of security; Mr Yassir Amr, a Jordan-based Fatah central committee member, to head the education department; Mr Yassir Abed-Rabbo, a PLO executive committee member, to take charge of communications; Intisem al-Wazir (Umm Jihad), wife of the assassinated PLO's former number two Khalil al-Wazir (Abu Jihad), who will oversee women's issues; and Mr Ahmed Qurie (Abu Ala'a), a Fatah central committee member and Arafat loyalist, who will be finance "minister".

The only two Palestinian "insiders" are Mr Faisal al-Husseini, PLO leader in the West Bank, in charge of liaison with Israel and Mr Zakaria al-Agra, the PLO boss of the Gaza Strip.

PLO officials say the list, which has been partially leaked in Jerusalem and Cairo, could be made public today. Other officials say the PLO is determined to wait until the Palestinian police force takes control of the self-rule areas before risking a backlash which the list may provoke.

Britain will help create monetary authority

The Bank of England will help Palestinians create a Palestinian Monetary Authority which will have all the functions of a central bank except the ability to issue a currency, a senior Palestinian economic negotiator said yesterday, Julian Ozanne writes.

Mr Samir Houleila said in an interview that the greatest challenge facing the Palestinians in implementing the economic protocol signed with Israel last week was the creation of credible, transparent and efficient financial and economic institutions which would have authority outside the political and bureaucratic structures of the Palestine Liberation Organisation.

The Palestinians will ask for considerable technical assistance from the UK and Switzerland. Implementing the agreement would be hard because it only applied to the Gaza-Jericho part of the occupied territories, Mr Houleila said. He urged Israel to endorse policy decisions taken by the Palestinian authority and apply them to the rest of the West Bank.

He defended the protocol, saying Palestinians would gain an immediate reduction in the cost of living from lower oil prices, VAT, customs duties and direct taxation, which would fuel exports and investment.

The economic protocol met Palestinian aspirations much better than the political and security agreement negotiated in Cairo. "Actually we have paid a high price in the political and security realm, but we get the benefits in the economic sphere."

The agreement terminates the Israeli-Jordanian agreement on banking in the occupied territories and allows Palestinians to make the US dollar legal tender, he said.

A negative point for Palestinians was Israel's refusal to state specifically the number of Palestinians who would be able to work in Israel, Mr Houleila added.

He and Mr Avraham Shochat, Israeli finance minister, agreed Israel was going to pay a short-term financial price for peace with the Palestinians, but would gain from long-term normalisation of relations with Arab and Islamic states.

Mr Shochat said Israel would lose several million shekels' revenue from customs duties and income tax on Palestinian migrant labourers (75 per cent of which will be transferred to the Palestinians) but would reap the rewards of peace. "For us the most important thing is not the existing situation but the opening of the door to the east and to Arab markets."

Mr Houleila warned the PLO would not call for an end to the Arab economic boycott of Israel before further talks on Jewish settlements, international borders and refugees.

BHP to face A$4bn New Guinea suit

By Nikki Tait in Sydney

A A$4bn (£1.97bn) damages suit against Broken Hill Proprietary, Australia's largest company, is to be filed in Melbourne courts later this week by about 6,000 Papua New Guinea villagers. The legal action seeks redress for environmental damage allegedly caused by the Ok Tedi copper mine in western PNG, which BHP manages.

The class action is believed to represent the largest compensation claim ever mounted in Australia, with the A$4bn figure comprising A$2bn in compensatory damages and A$2bn in exemplary damages. Shares in BHP edged lower, by two cents to A$16.90, on the news.

Details of the action were released by the Australian law firm acting for the villagers, ahead of the actual court filing. The suit itself is likely to be entered on Thursday by Mr Rex Dagi, leader of the Western Province's Miripiki clan, in the Supreme Court.

Yesterday's statement from the lawyers said the suit would centre around the alleged pollution and flooding of the Ok Tedi River, due to dumping of waste material from the mine. The Western Province was concerned that the mine had "caused major damage to wildlife dependent on the river, to most fertile land beside the river, and possibly to the health of local people," it said.

"The local villagers are demanding a dam be built to contain the waste from the mine and that the river and the land affected by the dumping of waste be restored," it added. The lawyers said that the A$2bn exemplary damages figure was based on the estimated current cost to build such a dam.

Yesterday, BHP said that the Ok Tedi project "operates in compliance with PNG law and with the full support of the PNG government". It added that any legal action would be vigorously defended.

Bond 'unable to recall Jersey companies'

By Nikki Tait

Mr Alan Bond, the failed Australian businessman, told a Sydney court yesterday he was unable to remember anything about a series of Jersey-based companies which allegedly handled his personal funds and made investments but were never mentioned in the formal statement of affairs drawn up when he went bankrupt in 1992.

The bankruptcy trustee is trying to find where Mr Bond's assets lie, to pay his creditors. One of Australia's most-prominent entrepreneurs in the 1980s, Mr Bond went into bankruptcy with debts totalling hundreds of millions of dollars.

At the long-delayed public examination by his trustee in bankruptcy, he said he had no recollection of telling the Jersey office of Touche Ross to accept instructions from Mr John Bond, his son, Mr Harry Lodge, a Perth-based solicitor, or two other business associates, to act on his behalf over his personal affairs during the 1970s and 1980s.

Asked if he had authorised anyone to set up an offshore company for his personal benefit, Mr Bond said he could not recall. In fact, Mr Bond could not even remember Touche Ross.

A day of relentless questioning by Mr Francis Douglas QC, acting for the trustee in bankruptcy, failed to have any impact on this amnesia. Neither did the presentation of a deposition given by one of the Touche Ross partners, a series of notes allegedly taken by Mr Lodge at a meeting with a Touche Ross partner in Jersey, or letters signed by Mr Bond telling Touche Ross to accept instructions from some of these individuals.

"What I'm suggesting is that you had substantial sums of money, amounting to millions of dollars, administered for you through companies in the Channel Islands," said Mr Douglas.

North Korea accused of violating 1953 armistice

By John Burton in Seoul

South Korea yesterday accused North Korea of violating the 1953 armistice agreement that ended the Korean war by threatening to withdraw from the military armistice commission.

North Korea said it would try to dismantle the commission unless the US agreed to conduct negotiations on a peace treaty to replace the truce pact.

Pyongyang has violated the armistice agreement "which provides that this document may be amended or supplemented only by agreement between the parties involved," said the National Unification Board in Seoul.

Both the US and South Korea have said they will not consider the peace treaty proposal until the North Korean nuclear inspection issue is resolved.

North Korea has refused to attend meetings of the armistice commission, which helps supervise the truce, since March 1991 when a South Korean general was appointed chief delegate for the UN forces. It claims South Korea was not a signatory to the armistice agreement, which was signed by North Korea and China on one side and the US-led UN forces on the other.

South Korean analysts believe North Korea is trying to gain several advantages by raising the peace treaty proposal and linking it with the nuclear issue.

The most important goal is to exchange nuclear inspections for a peace treaty that would eventually lead to the withdrawal of US forces from South Korea and weaken relations between Seoul and Washington.

The proposal is also part of the North's strategy to eliminate South Korea from the current nuclear negotiations. The North is seeking direct high-level talks with the US on possible diplomatic recognition, but Washington has refused to hold discussions until Pyongyang accepts full nuclear inspections of its seven declared nuclear sites.

Another motive behind the North's action is to blur the international focus on the nuclear dispute.

"It's their way of moving the goalposts and obfuscating the issue," said a US official.

Identity crisis for Asian Development Bank

Alexander Nicoll on a debate about the role of 'soft' public funds in a less than poor region

What should a regional development bank do when its region has become – at least partly – developed?

The question has occurred to the governments which support the Asian Development Bank with taxpayers' money. Many industrialised countries feel that, since borrowers have growing resources and access to private capital, the ADB should focus on alleviating social problems – for example, reducing poverty and improving the environment.

Zealous championing of this issue, particularly by the US, has dominated the ritual discussions over a capital increase for the ADB over the past two years and has upset some Asian countries even if they broadly agree with the US arguments.

An even broader questioning of the modern role of international development banks came from Sir William Ryrie, former head of the World Bank's private sector arm, the International Finance Corporation, and now a director of Barings, the merchant bank, during a seminar at the ADB's annual meeting in Nice.

Massive private investment pouring into economies which were increasingly market-oriented had made official lending, he said, "less necessary and sometimes undesirable". Official lending could retard development of private markets by introducing capital which was not subject to the same risk discipline as private money. Development banks should lend to governments for sound projects only when the private sector would not meet the need.

Though the debate about a capital increase is virtually over – negotiations have been completed and ADB governors must vote on a doubling by May 22 – discussion of the ADB's function continues to swirl.

The bank's new president, Mr Mitsuo Sato, faces a big challenge in implementing the new strategy set by shareholders while at the same time seeking to restore bruised dignities in an organisation which, in the Asian manner, has a strong tradition of operating by consensus.

Simply interpreting the new conditions which are being attached to the ADB's lending will be difficult. About half of lending from ordinary capital resources (separate from soft loans) is to be devoted to social-sector lending. Instead of just financing a road, the ADB should now ensure that the road is of particular benefit to poor communities, or for example that the borrowing government charges appropriate fees to trucks to limit environmental damage.

Most sensitive is a demand by donor countries that loans be linked to "good governance" – a phrase with political overtones which alarm many borrowing countries, particularly those with memories of past colonialism.

Mr Gunther Schulz, an ADB vice-president, says: "We feel as a bank that we can only use this term in an economic context, not a political context."

ADB officials concede, however, that not all donor countries agree with this interpretation. "How can we judge human rights in a country?" asked one. "We are not Amnesty International. We do not have the tools."

Mr P.K. Lahiri, Indian executive director of the bank, said India, while supporting the capital increase, had reservations about its linkage to policy and operational guidelines.

India and China also feel that if a high proportion of ordinary ADB lending is to be devoted to social sector concerns, then they – the borrowing countries with social problems on the biggest scale – should have access to concessional loans from the Asian Development Fund which are naturally targeted at such problems. India and China are denied access to the ADF on the grounds that their sheer size would swamp the fund's resources.

The changes in policy take place just as the ADB is in any case tightening up its practices so that loans are better prepared and monitored. The bank has admitted that it suffered from an "approvals culture" in which the primary concern was to pump out loans rather than the quality of projects – though it does not feel the performance record of projects it has financed is any worse than that of other similar lenders.

ADB executives insist the bank still does have a valuable role to play. Mr Sato told the annual meeting yesterday the bank's regional presence acts an an incentive to others "to participate in a broad-based portfolio of investment for sustainable development".

Mr Schulz said the bank will be much more selective in future lending and that it should not compete with the private sector. He said the bank could act as a catalyst by taking small stakes in, for example, big infrastructural projects, and could also assist longer-term development by financing education and health.

Donor countries will be closely watching the ADB over the next two years as they discuss the next replenishment of the ADF – negotiations which, given the present debate, promise to be difficult.

Mr Edouard Balladur, the French prime minister, yesterday stepped up France's drive to enter Asian markets by vaunting what his country had to offer Asia in political, aid and commercial terms, David Buchan reports from Nice.

Opening the annual meeting of the Asian Development Bank in Nice, the French premier expressed his hope for Europe generally to strengthen its ties with Asia, but then homed in on French export specialties in telecommunications, transport and energy, citing South Korea's recent decision to buy the French-designed TGV train.

Mr Balladur urged ADB member countries to join, and play a full role in, the new World Trade Organisation which France had pushed for to replace the Gatt organisation.

Welcoming the effort that "most" Asian countries had made in the Uruguay Round to liberalise their trade, he hoped all Asia would see the need to reciprocate trade concessions made by others, as reciprocity was the only basis for "lasting agreements".

Sri Lanka economy ahead by 6.9%

By Mervyn de Silva in Colombo and Stefan Wagstyl in New Delhi

Sri Lanka's economy grew 6.9 per cent last year, despite the turmoil caused by the assassination of President Ranasinghe Premadasa and the continuing civil war in the north, an official report released this week says.

The country saw the highest growth rate since 1978, the report published by the Central Bank of Sri Lanka shows. Growth was fuelled mainly by a recovery in agriculture and a 24 per cent increase in investment.

The report comes amid mounting concern about prospects for this year. The ruling United National party, preparing for presidential elections in late 1994 and a general election early next year, suffered its first serious defeat in 17 years in provincial polls earlier this year.

Reacting to criticism from within his party, President D.B Wijetunga has launched a populist programme of tax cuts and hand-outs which could strain the government's resources. Meanwhile, the Sri Lanka Freedom party, the main opposition, has been gathering support at rallies, notably a May Day rally attended by 200,000 in Colombo.

The Colombo Stock Exchange's all-share index, which rose 62 per cent last year, has fallen rapidly this year, with further sharp falls this week. The all-share index lost 48.24 yesterday, falling to 1,002.61 for a two-day loss of 8.7 per cent.

The report says the inflow of foreign capital soared 47 per cent to SDR490m (£466.97m), taking accumulated foreign assets to SDR1.5bn in December 1993, as foreign fund managers poured money into the Colombo Stock Exchange.

Foreign direct investment picked up, notably in Colombo property. Remittances from Sri Lankans working overseas rose 17 per cent to SDR454m. Exports were SDR2.1bn and imports SDR2.9bn.

Inflation rose slightly to 11.7 per cent, due partly to higher defence costs in the north.

Committee urges increased black participation in stockbroking community

Johannesburg to relax market access restrictions

By Mark Suzman in Johannesburg

The Johannesburg Stock Exchange yesterday announced its intention to relax restrictions on foreign participation and ownership of brokerages, allow corporate membership, and lower barriers to entry for first-time investors, especially blacks.

The exchange is the 11th biggest in the world by market capitalisation with a value of some $170bn. The proposals are part of the findings of a sub-committee that had been commissioned two years ago to "advise on how the JSE should be structured as South Africa enters a new era".

The inquiry was prompted both by a need to increase the efficiency and accessibility of the exchange in a time of political flux and address pressure from institutions, such as merchant banks, for the right to deal on the market.

The committee urges the encouraging of wider share ownership among the black community, promoting small business and emerging black entrepreneurs, the expansion of possible channels for black savings in the market, and increased black participation in the stockbroking community.

The JSE proposes easing access to the exchange for small and medium-size black companies through a restructuring of the largely moribund local venture capital market as well as introducing a new class of members of the exchange to make market entry simpler.

Operational questions addressed by the report centred on whether to permit corporate members, whether to allow negotiated commissions, and whether to switch from the current single trading capacity, where brokers act on behalf of buyers and sellers, to dual capacity trading, where brokers can act as principal as well as agent. Although divided, the majority report of the committee decided that a London style, immediate "Big Bang" was not desirable for Johannesburg and that "phased implementation" of deregulation would be preferable.

It decided to retain fixed commissions at a slightly lower basic rate, but allow for negotiation on commissions on trades over R3m. On corporate memberships, it suggests that initially up to 30 per cent of a broking firm may be sold to non-stockbrokers, with the proportion possibly expanding at a later date.

As the report also recommends lifting the restriction on South African citizens becoming brokers, this opens the door for foreign ownership of broking firms. Several local brokers are already sounding out prospective international partners.

"There is a great deal of interest among the foreign community in increasing their involvement on the exchange," admits Mr Roy Andersen, JSE president, who described the proposals as an "elegant solution" that would "level the playing field between brokers and bankers and allow the process of evolution without disruption."

On the more contentious debate over trading, a majority view decided to retain the current single capacity so as to prevent possible abuses and price manipulation. South Africa's banking sector is largely controlled by conglomerates which have significant industrial interests as well, thus opening up potential conflicts of interest.

However, the report acknowledged that, were South Africa's restrictive exchange controls ever lifted as the committee favours, a shift to dual trading capacity in the broader global market would be inevitable.

The report also blames the foreign currency controls for the problem of market illiquidity – annual turnover currently amounts to only around 7 per cent of market capitalisation – but suggests that the abolition of the Marketable Securities Tax, currently levied at 1 per cent of transactions, could also help address the problem.

The recommendations have to be passed on to the new parliament and then legislated before they take effect. Among stockbrokers, the general reaction was favourable, with some seeing it as a pre-emptive strike against possible action by the new government. "All in all it is good news and far better than having it imposed by an external force," said one dealer.

US steps up peace efforts on Rwanda

By George Graham in Washington

The US has stepped up its involvement in efforts to end the fighting in Rwanda with the despatch of two senior diplomats to the region and a promise of $15m (£10.2m) of humanitarian aid.

Mr John Shattuck, assistant secretary of state for human rights, and Mr David Rawson, former US ambassador in Kigali, were due to set out yesterday for talks in neighbouring Uganda, Tanzania and Burundi.

But US officials said they were working mostly through the United Nations, adding that US involvement might extend to providing money or logistical support for a UN force though not to despatch of US troops.

State Department officials added that the US was pushing for the UN Security Council to impose an arms embargo on Rwanda and had approached other countries in the region in an effort to stop the flow of weapons into the country.

Reuter adds from Nairobi: Rebels of the Rwanda Patriotic Front failed to appear yesterday for peace talks in the northern Tanzanian town of Arusha. A delegation from a rump government which now controls barely a third of Rwanda had already arrived in Arusha.

However, Mr Emmanuel Ndahiro, RPF military spokesman, said the RPF was prepared to talk to elements of the armed forces in an attempt to halt the killings.

Mandela insists on fruits of liberation

Patti Waldmeir and Mark Suzman ask whether the new South Africa can afford them

Mr Nelson Mandela made one thing abundantly clear when he claimed electoral victory on Monday night: that he will be moved by the spirit of reconciliation and compromise on all issues bar one – his economic plan for uplifting black South Africans, known as the Reconstruction and Development Programme (RDP).

The message of the man who will henceforth dominate South African politics was unambiguous: he will tolerate no opposition in implementing this programme; and anyone who disagrees with it need not bother entering the government of national unity.

His comments demonstrate the fact that Mr Mandela and his African National Congress see the advancement of black South Africans as the true goal of decades of liberation struggle. If political power cannot be used to ease black poverty, it is not worth having, they would argue.

The foreword to the RDP puts the case even more categorically: "No political democracy can survive and flourish if the mass of our people remain in poverty, without land, without tangible prospects for a better life."

The ANC cannot expect to remain in power unless it meets these basic needs. Mr Jay Naidoo, who may be appointed to head a special ministry charged with implementing the programme, says its objectives must be met or "none of us is going to survive". The programme sets ambitious goals – over the next five years – 1m homes are to be built, 2.5m houses electrified, clean water, sanitation and health care provided for all. But it also includes a commitment to fiscal discipline and the need to maintain macro-economic balance.

"We must finance the RDP in ways that do not cause undue inflation or balance of payments difficulties," it says, adding that "the vast bulk of the RDP will be financed by existing resources organised, rationalised and directed within RDP guidelines".

But the ANC's plans for "increasing the efficiency of consumption expenditure and improving the revenue recovery capacities of government" display a touching faith in the powers of the new broom – and a naive belief in the willingness of government to cut defence spending.

Mr Naidoo expects a 3 per cent annual rise in the productivity of the civil service. But the ANC's agreement not to sack white civil servants in large numbers, coupled with its commitment to promote blacks through affirmative action, may, conversely, lead to a rise in the cost of the public service.

And with nine new provincial administrations set up under the constitution and a host of new parastatal bodies created by the RDP itself, it is hard to share the ANC's optimism about productivity gains. So too is it difficult to believe that R3.83bn (£717m) will be saved from defence spending.

It is also worth noting that though the plan cites the need for fiscal discipline, a commitment to keep the budget deficit at 6 per cent of gross domestic product, included in early drafts, was removed from the final plan.

Costing the plan is difficult: the ANC says it has budgeted R39bn for the five-year programme. The National party claims the true cost will be R70bn in the first year alone, rising to more than R600bn for the full five years. Given that the financing of the RDP is at best vague, at worst unrealistic, only time will tell which will turn out to be the true figure.

Still, the South African business community does not seem to be panicking over the plan, largely because the ANC has shown such eagerness to consult widely on the programme and seek the commitment of business at every stage.

As economist Mr Rudolf Gouws of Rand Merchant Bank points out, the final draft has removed many of the "rough edges" of earlier drafts, making it more difficult to criticise. And the original heavily "statist" emphasis of the draft has been substantially softened, with ANC officials keen to play up the party's corporatist intentions, rather than its anti-capitalist past.

The real test will come if an ANC government must choose between either implementing the plan or raising taxes and printing money.

For the moment, its intentions are virtuous; they will be sorely tested by a spell in power.

SOUTH AFRICAN ELECTION RESULTS*
Electorate: 23m

	Votes	% of total
African National Congress (ANC)	7.42m	62.5%
National Party (NP)	2.62m	22.1%
Inkatha Freedom Party (IFP)	0.99m	8.3%
Freedom Front (FF)	0.32m	2.7%
Democratic Party (DP)	0.21m	1.7%
Pan Africanist Congress (PAC)	0.15m	1.3%

* Provisional results for the National Assembly based on 12.07m votes counted out of the estimated 23m cast.

Western Cape will prosper, says Kriel

Mr Hernus Kriel, who will head a National party government in South Africa's Western Cape province, believes most money in any post-apartheid economic boom will be attracted to his administration, Reuter reports from Cape Town.

Mr Kriel, law and order minister in the the outgoing white parliament, said in an interview that investors would be drawn to the Cape by his commitment to law and order and by the white-led NP's commitment to a free market.

"People will invest where they feel their property and profits are safe," said Mr Kriel, who is likely to be the only white provincial premier.

Mr Kriel dismissed speculation that the Cape could become a white homeland or volkstaat, but he said investors would be drawn by the stability of NP rule following the repeal of anti-apartheid sanctions that deepened the country's four-year recession.

Economic analysts said, however, that growth would be due to the natural advantages of the Cape. Mr David Bridgman of Wesgro, a regional economic initiative, said the Cape was already the country's most attractive venue for new manufacturing investment.

"There is a threat – and it would be very bad news – that we could face a race with the National party going all out to make the Western Cape work and the ANC going all out to prove it a disaster," he said.

"There is already a perception of the Cape as being high on lifestyle and low on violence, which is attracting a lot of people."

Mr Rob Lee, Board of Executors portfolio manager, said Mr Kriel would have only limited powers to put the Western Cape on a different economic course from the policy adopted by the central government. However, "the National party will want to make the Cape its showcase, so they'll put everything into making it look better than the rest of the country."

He said South Africa's post-apartheid growth would be fuelled by tourism and manufactured exports and the Western Cape was favourably placed to take advantage of both.

Hernus Kriel, victorious National party candidate to be premier of Western Cape, is congratulated by a colleague AP

News service withdrawn after item is dropped

Malaysia in row with BBC

By Kieran Cooke in Kuala Lumpur

Malaysia, which in late February imposed a ban on giving government contracts to British companies following unflattering reports about the country and Prime Minister Mahathir Mohamad in the British press, has now become involved in an argument with the BBC about its TV news broadcasts.

Satellite transmissions are illegal in Malaysia but since the beginning of March the BBC has been supplying Radio Televisyen Malaysia (RTM), the local state run broadcasting service, with a daily news programme.

Last weekend the BBC withdrew the service, saying RTM had broken agreements that its news bulletins be run in full and not censored. At issue is an RTM decision to drop a BBC news item which showed recent labour unrest involving thousands of people in the Indonesian island of Sumatra.

An official at Malaysia's information ministry said the item had been dropped so as not to jeopardise relations with Indonesia and accused the BBC of "blatantly disregarding Asian sensitivities".

In place of the BBC news programme viewers will now watch American wrestling.

Major under pressure amid split over Europe

By Philip Stephens, Political Editor

Mr John Major yesterday rebuked Mr Michael Portillo, the Treasury chief secretary, as cabinet tensions over Europe and the party leadership left the government in visible disarray on the eve of tomorrow's local elections.

Facing a fierce opposition attack in the House of Commons, the prime minister denied the cabinet was split over whether Britain should participate in a single currency during the next stage of European integration.

His response coincided with calls from a procession of senior ministers led by Mr Kenneth Clarke, the chancellor, for the party to end its factional infighting.

The ministers sought to dismiss a call from a senior backbencher, Mr David Evans, for large-scale cabinet sackings and the replacement of Sir Norman Fowler as party chairman.

But the damage-limitation exercise did little to dispel the speculation among Tory MPs that heavy defeats tomorrow and in the European elections on June 9 would seriously imperil Mr Major's leadership.

Amid alarm among party managers about the threat of an electoral catastrophe, Mr Portillo said that he had not broken cabinet in voicing opposition to a single currency.

He told a Westminster press conference that he fully backed the government's stance that it will decide whether sterling should be subsumed by a single currency only if and when the occasion arose. Remarks he made at the weekend had been misreported.

Turning to the leadership, Mr Portillo, the emerging candidate of the right in any contest, insisted he did not expect any challenge to Mr Major he was not encouraging friends to campaign on his behalf

But party insiders did little to disguise Mr Major's anger at the way Mr Portillo had re-opened the European debate in the last critical days of the local elections campaign. Officials said the chief secretary had issued his clarifying statement on the direct instruction of the prime minister's office.

Mr Major's personal irritation was visible also when he told MPs that Mr Portillo had "made clear this morning that he fully supports our policy on a single currency, a policy agreed by the whole Cabinet."

Mr Clarke also distanced himself from his deputy with the equivocal comment: "Obviously I just expect and assume that my Cabinet colleagues will support a policy which Parliament will decide when the issue arises. Michael always has done, so far as I am aware."

But ministers on the Eurosceptic wing of the party backed the chief secretary. Mr Peter Lilley, the social services secretary and another prominent cabinet sceptic, was among those said to be angered at the suggestion that senior ministers were not allowed to voice their opinions.

In the Commons Mr John Smith, the Labour leader, ridiculed the prime minister for failing to assert his authority.

Mr Smith charged that: "If you cannot control your own Cabinet, is it any wonder that we doubt that you can run the country".

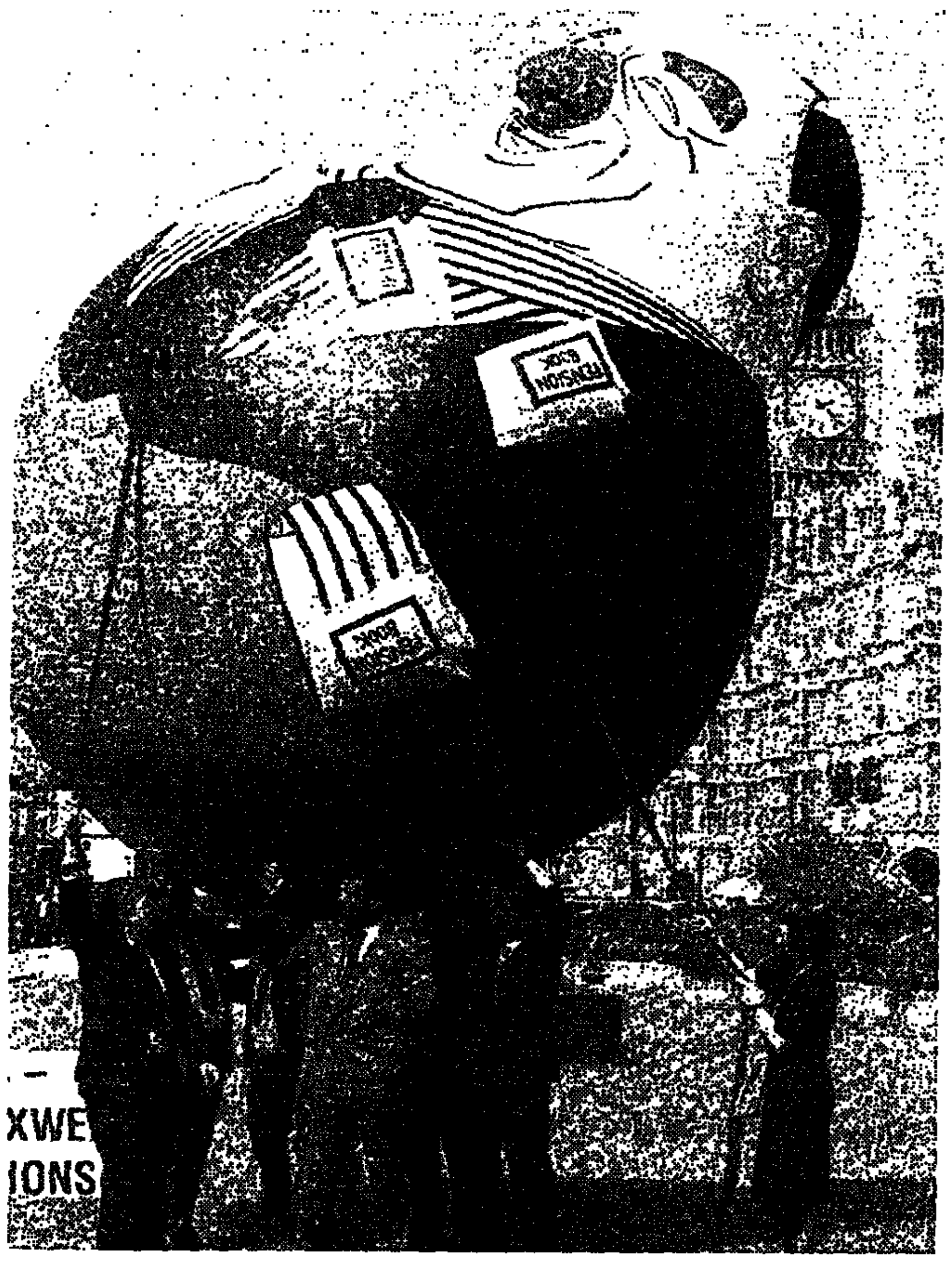
Unions lead pensions protest

Trade unionists representing a million members of the Local Government Superannuation Scheme currently employed, and a million local authority pensioners, yesterday lobbied parliament over government moves which they claim threaten the future of the scheme, Jim Kelly writes.

Outside parliament they gathered beneath an 18 ft inflatable model of Robert Maxwell with the banner 'Ministers – Don't do a Maxwell on our pensions' before lobbying MPs of all parties to demand protection for their members' pension arrangements.

Mr Bill Morris, general secretary of the TGWU transport union, said: "The government aim is to force increasing numbers out and then break up the Local Government Superannuation Scheme. First the personal pensions disaster and now this attack on the LGSS threaten poverty in old age for a generation of pensioners in the 21st century."

Unison, the public services union, the GMB general union, and the TGWU are concerned about deregulation of local authority pensions and say it could lead to reduced benefits for members. Unison's assistant general secretary, Mr Roger Poole, said: "This government's punitive policies have turned the nation's pensioners into paupers."



Picture: Trevor Humphries

The squabble becomes Tories' single currency

By Philip Stephens

The latest ministerial in-fighting about a decision that a future British government may or may not have to take in the late 1990s provoked exasperation and dismay among the level-headed on the Tory benches yesterday.

But it is a measure of the depths of the fundamental Tory divide on Europe that Mr Michael Portillo's off-the-cuff dismissal at the weekend of a single European currency could provoke such disarray.

The chief secretary's antipathy to European Monetary Union is well known. His Euroscepticism has propelled him within a few weeks into the position of the leading candidate of the right in the event that Mr John Major is forced from office.

But in articulating in public what he and his right-wing cabinet colleagues have long said in private – that a single currency would fatally undermine British sovereignty – Mr Portillo broke a carefully-constructed cabinet truce.

The official government stance on whether or not the government would participate in a single currency was set out in a European elections campaign document last month. It was a fudge, deliberately designed to prevent the sort of row which has broken out in the last few days.

The document states that because of the opt-out negotiated by Mr John Major at Maastricht, Britain retains the right to make its own decision on whether or not to take on the obligations leading to a single currency for Europe.

It adds: "That will be the subject of a separate decision by our national parliament at Westminster, if and when that decision ever has to be taken". And in the meantime Britain will not rejoin the European exchange rate mechanism within the "foreseeable future".

Put another way, the formula says there is no need now for the Tory party to tear itself apart over issues which will not confront it at least during the next several years and, perhaps, not at all.

Mr Portillo yesterday fell in again behind that neutral formula. But on the other side of the European fence, Mr Kenneth Clarke, the chancellor, made no secret of the fact that he could envisage supporting a single currency.

Esoteric though it may seem to the voters, the split shows no sign of going away before the European elections.

Mercury faxes under fire

By Alan Cane

A fax bureau says that Mercury, the UK's second-largest telecommunications carrier, overcharged it by up to £100,000 in 12 months by transmitting its faxes too slowly. The bureau is preparing a formal complaint to Oftel, the industry watchdog.

Comwave, the UK subsidiary of Swiss-based company Comwave Communications, said network providers do not have to comply with regulatory standards while manufacturers' equipment must pass stringent standards before it can be connected to the network.

Oftel agreed this week that public telecommunications operators were not obliged to guarantee that fax calls would be successful or completed at any particular speed.

Comwave said that faxes sent on Mercury lines took an average of 18 per cent more time than faxes on British Telecommunications lines. Comwave has switched to another network operator for its fax business.

Its global fax broadcast service is used by customers such as McGraw Hill, the US publisher, Swiss Bank and British Alcan to distribute time-critical information.

The cause of the problem, which Mercury does not deny, was a mismatch between Comwave's fax machines and a piece of Mercury equipment.

Mercury, while not admitting liability, has agreed to credit Comwave with £20,000.

Lloyd's presents reform package

By Richard Lapper

Lloyd's of London yesterday paved the way for a further transformation of its capital base, providing for syndicates backed by one single corporate investor, effectively insurance companies, to operate at the market.

A package of reforms strengthens the rights of the individual Names, whose assets support the market, and suggests ways in which those Names who continue to trade may be able to sell the capital value or goodwill attached to their syndicate participations.

"The proposals in this report maintain a programme of radical reform which we initiated a year ago," said Mr David Rowland, chairman. Lloyd's introduced £800m in new corporate capital last year.

Mr Peter Middleton, chief executive, said Lloyd's would consult on its proposals for "transferring or realising value" for syndicate participations and that the changes "will have a profound and positive impact."

The market does not intend to change rules limiting the amount of capital corporate investors can supply to syndicates. Single corporate Names can supply no more than 25 per cent of a syndicate's capacity – the amount of premiums it can accept – while overall syndicates can obtain no more than 50 per cent of their capacity from corporate Names.

However Mr Rowland said the council, the Lloyd's governing body, could make exceptions and conceded that "it is inevitable that at some point in the future we will revisit these regulations."

Lloyd's said – if introduced – single corporate members would be able to adopt annual accounting – in contrast to the three year system deployed by existing syndicates.

Mr Robert Hiscox, deputy chairman and a keen supporter of the idea, said the new type of syndicate would allow managers "complete stability of capital, and to retain earnings and plan long-term."

Bank acknowledges delay to Crest system

By Norma Cohen, Investments Correspondent

The Bank of England yesterday acknowledged for the first time that its timetable for speeding share settlement in the City will not be met. It said the second phase of project to introduce paperless settlement will be delayed, they hope by no more than six months.

The Bank also indicated that the cost of the new system, Crest, may be higher than earlier believed. It announced a "cap" on Crest's costs of £35m, compared with its initial cost estimate of £20m to £30m. Crest is intended to replace the London Stock Exchange's failed Taurus system.

However the Stock Exchange's request to be a significant minority shareholder in Crest was rebuffed, although the Bank said that but that the Exchange could still be chosen as the "operator" of Crest.

"It is something there are a lot of cogent arguments for," said Mr Pen Kent, associate director of the Bank of England who is spearheading the Crest project.

The operation of Crest, set for 1996, required that the City greatly reduce the number of days between striking a bargain and either receiving the shares or paying for them. From July 18, share transactions will settle 10 days after bargains are struck, but the Bank had planned to move to a five-day gap from next January. It will decide by year end when "Trade Date Plus Five" should be phased in.

"I expect it will be in the first half of 1995. If it is any later I will be very disappointed," said Mr Kent.

Yesterday, the Exchange said it "understands that the Bank is not in a position to offer participation in the ownership structure on the basis of a significant minority interest, as proposed." But it will be a member of a consultative committee advising the Bank-appointed board and will consider whether a small shareholding is still appropriate.

While large Exchange members have supported its application, fund managers and bankers have been concerned that a large stake would give it undue influence over Crest which it could use to advance its own interests. Also, the Bank said yesterday that 50 City institutions have signed up to become Crest shareholders and it is extending the deadline for additional shareholders by one month.

While these shareholders will not have a direct vote in the ultimate design of Crest, the Bank of England will appoint a "shadow board" of representatives of some shareholder companies who will make key decisions. The Bank will not be legally obligated to follow the wishes of the shadow board but will be minded to abide by its recommendations.

Money supply growth eases fears over tax

By Peter Norman, Economics Editor

Strong money supply growth last month and a sharp jump in banks' mortgage lending in March yesterday suggested that Britain's consumer-led recovery is shrugging off the April tax increases.

News that M0, the narrow measure of money supply, grew by a larger than expected seasonally adjusted 6.2 per cent in the year to the end of April strengthened market expectations that Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the Bank of England governor, would decide against cutting bank base rates from 5.25 per cent at their monthly monetary meeting today.

A decision to change rates was already considered highly unlikely in view of tomorrow's local elections, recent indicators of steady first quarter economic growth and rising yields for UK government bonds.

Yesterday's figures for M0, normally regarded as a good guide to retail sales, provided the first statistical evidence that the tax increases have not deterred UK consumers. "The figures showed there is quite a lot of momentum in consumer demand," said Mr Adrian Cooper, UK economist at James Capel & Co, the stock brokers.

According to the Bank of England, M0, which consists mainly of notes and coins in circulation, increased by a seasonally adjusted 1.9 per cent in April alone, the strongest monthly increase for 13 years. M0 growth in the year to April was well above the 5.8 per cent increase expected by the City and 5.6 per cent growth in the year to March.

Buoyant mortgage lending figures from Britain's eight biggest banks provided further evidence of UK consumers' resilience.

Although the British Bankers' Association said much of a sharp 46 per cent rise in gross mortgage lending to £1.55bn in March from £1.06bn in February was seasonal, Lord Inchyra, the association's director general, said a sharp rise in mortgage approvals in March suggested that "impending tax rises have had little effect on buyers' confidence so far". Approvals in March increased by 28 per cent compared with February to £1.58bn and were nearly double January's seasonally depressed level.

Meanwhile, provisional figures from the Confederation of British Industry provided mixed signals on pay awards. The CBI's Pay Databank showed that manufacturing awards averaged 2.7 per cent in the first quarter, slightly up on the 2.5 per cent recorded in the three months to February.

Transport secretary John MacGregor and some visiting schoolchildren try out the sound wall, one of the exhibits in the Channel tunnel exhibition at the Science Museum in London yesterday Picture: Ashley Ashwood

Channel tunnel '30 times safer'

By Charles Batchelor, Transport Correspondent

Travelling through the Channel tunnel should be at least 30 times safer than travelling by train above ground, according to a safety manual prepared for the £10bn project.

Eurotunnel, which will run trains through the tunnel, yesterday unveiled a 1,000-page analysis of risks and the procedures to reduce them.

The tunnel "safety case," itself a summary of documents which would fill two wardrobes, is due to be published within the next two weeks. It identifies more than 50 possible hazards including fires, derailments, obstructions on the line and earthquakes.

After four months of testing of the tunnel procedures, including round-the-clock operation of a full train service, Eurotunnel hopes to obtain safety clearance to start freight services early next week. The official opening of the tunnel is on Friday May 6.

Eurotunnel initially set itself a target that for passengers travelling without their cars the chance of being killed should not exceed 4.7 per 100 million journeys through the tunnel while for passengers with their cars the risk of death should not exceed 5.5 per 100m journeys. This was based on the safety performance of British Rail and the French railways SNCF.

But the real risk to passengers without cars is 50 times lower than the criteria set and for passengers with cars 30 times lower because of the safety measures adopted.

These include special door locks; separate running tunnels and a service tunnel; automatic train protecting devices and a powerful ventilation system to remove smoke.

● A decision on the site of additional stations on the £2.7bn Channel tunnel rail link is expected within the next four weeks, said Mr John Armitt, chief executive of Union Railway, designer of the route, yesterday.

The government will choose between of one or more of three sites: Stratford in east London, Rainham in Essex and Ebbsfleet in Kent, in addition to the station being built at Ashford in Kent.

Britain in brief

UK business failures even out

The number of UK business failures appears to have plateaued out at about half the level of 1992, according to a survey published yesterday by Touche Ross, the accountants.

However, the number of receiverships and administrations, which totalled about 2,500 in the last year, is running at well above pre-recession levels. In 1989, for instance, there were 1,500 cases.

No clear pattern has yet emerged in the monthly receivership figures this year. After two months when the number of receiverships increased, the number of business failures dropped by 35 per cent in April to 171.

The average monthly number of failures in the first four months of 1994 was 211, little lower than the 220 average recorded over the last 12 months.

Touche Ross said that the recovery from recession continued to be slow and cautious.

Post chief lobbied MPs

Mr Bill Cockburn, chief executive of the Post Office, revealed yesterday that he has lobbied more than 150 MPs as part of his campaign to secure commercial freedom from the government.

He also publicly spelt out for the first time detailed business plans which could only be put into operation if the corporation was privatised or given commercial freedom within the public sector.

The plans include leasing some or all of the 16 trains owned by the Post Office; distribution of newspapers and handling private mail and parcels. In total the measures could save the corporation tens of millions of pounds.

Under current rules it is prevented by the Treasury from using surplus cash to invest in such business ventures.

Mr Michael Heseltine, trade and industry secretary, has said there is a strong economic case for privatising the Royal Mail to give it commercial freedom. But he has yet to publish his department's 22 month-old review of the business.

Westminster to launch review

Westminster Council in central London is launching an independent review of whether its proposed Unitary Development Plan could have been drawn up as part of a gerrymandering exercise related to its controversial sales of council houses.

The launch of the enquiry into the development plan is nearest the Conservative controlled council has come to admitting that the alleged gerrymandering exercise – supposedly planned to boost Conservative votes in eight marginal wards – may have extended beyond the council house sales to other activities including the planning process.

Earlier this year, the district auditor, Mr John Magill, made a preliminary ruling that the "designated sales" of council houses in the late 1980's were unlawful and recommended that ten councillors and officers, including the then leader, Dame Shirley Porter, should be surcharged £21.5m.

Mr John Major, the prime minister, yesterday said the Westminster Conservatives, who have a slim majority, deserve to be re-elected.

CORRECTION

Cory Environmental

Our use of a photograph of the Cory Environmental Pollution Services site at Mucking, Essex, to illustrate last Saturday's report on the introduction of new rules for the waste disposal industry does not imply that Cory is deficient, and it continues to operate under its existing licence as it meets the new rules. We apologise for any embarrassment caused by use of the picture.

A new look for an old forest

David Lascelles discovers a woodland being remodelled

The wind is blowing so hard that it is all Brian Mahony can do to keep his plans and maps straight. We are deep in the English Lakeland fells looking across the Duddon Valley at the wooded slopes of Hardknott.

The forest is one of the most sensitive of the many managed by Forest Enterprise, the operating arm of the Forestry Commission. It covers the east flank of Harter Fell, a peak close to the central Scafell group which forms the backdrop to some of the most dramatic scenery in the Lake District National Park.

Mahony is Forest Enterprise's district manager, and his papers contain plans to reshape the forest to take account of the growing environmental pressures which now have to be balanced against the traditional goal of timber production. It was not always this way.

The Forestry Commission acquired this huge estate at the head of the Duddon Valley in 1936. But before it could smother the area with trees, it was prevailed upon by the Council for the Protection of Rural England to sell off a big part of it, keeping only Hardknott for planting.

The result is that much of the top of the valley remains unspoilt. But Hardknott bears the marks of the production-driven planting practices of 50 years ago. The 1,400-acre forest is mostly fir, laid out in orderly ranks with little regard for the contours of the surrounding landscape.

However, half a century later, Hardknott is now being harvested, and this gives Mahony an opportunity to remodel the forest. He has two master plans.

The first is the felling plan. Rather than raze whole areas in angular shapes, the aim is to phase the felling in order to soften the outlines and introduce variety.

The second is the restocking plan. Landscape designers have prepared a scheme to plant a greater variety of trees in groups which blend in with the line of the fell.

Mahony's plans are a patchwork of coloured blobs representing different varieties. Spruce will continue to dominate the upper slopes because it is best suited to the cold, wet conditions there. The middle slopes will have more larch and Scots pine with broad-leaved trees for the lower slopes.

Forest Enterprise now has forest design plans for each of its woodlands, all based around "multiple purpose forestry" which combines commercial forestry with the environment, conservation and recreational uses.

Although the organisation would like Hardknott to be exemplary of its approach to forestry in a national park, it is not typical. "What we're doing here is at the upper end of the spectrum because it's a very special site," says Geoff Hatfield, director of the north and east England region.

The difficulty is that while Forest Enterprise has become more environmentally aware, it is also coming under increasing pressure to operate commercially and transform its annual operating loss into a profit. This pressure would grow if the government considers privatising the Forestry Commission, which is one of the options currently before ministers.

The redesign of Hardknott forest will reduce its yield in the long term because fewer trees will be planted, and a greater proportion will be slow-growing hardwoods. Harvesting is also expensive there because felling is to be phased over 30 years, and the logs hauled down the Duddon Valley's tiny lanes in specially designed lorries which can only manage 100 tonnes a week. And if the true Lakeland appearance of the forest is to be preserved, dry stone walls will have to be rebuilt and maintained, at heavy cost.

"Would a private-sector company take so much trouble?" wonders Hatfield, rather implying that they would not. He also stresses the wide public access which the Forestry Commission grants to its woodlands, something which private owners might restrict.

But at the same time, he says that Forest Enterprise "does not pull its punches" in its quest for commercial viability. Costs have been sharply reduced, and much of the work is now contracted out to private firms.

Efficiency is one reason why Forest Enterprise will continue its unpopular practice of planting trees in tidy rows at Hardknott because it makes access easier and encourages trees to grow to the required size and shape. Harvesting is done using highly efficient machines which can fell, strip and saw several dozen trees per hour.

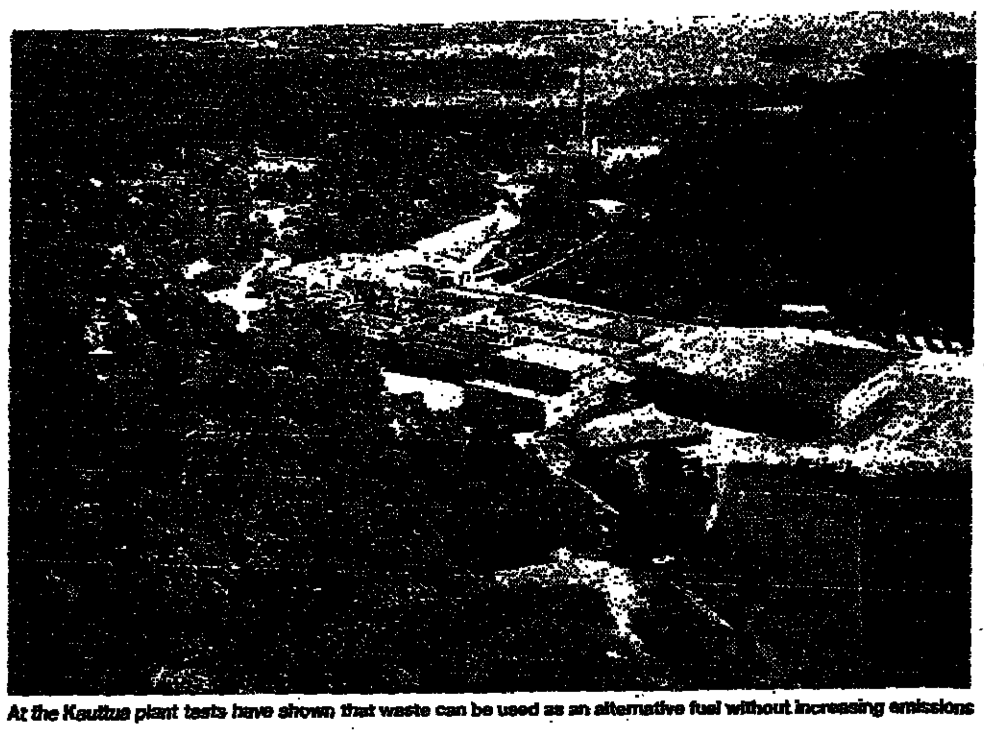
A few miles east of Hardknott lies Grizedale, the largest Lakeland forest, where Forest Enterprise has already gone some way to try to balance timber production with its environmental and leisure objectives. Tourists are encouraged to use the forest: there is a visitor centre, and cyclists and walkers can use the tracks and trails.

All told, Forest Enterprise has 11,500 ha of land in the Lake District, and produces 75,000 tonnes of timber a year, which makes it one of the biggest landowners and commercial operators in the national park. This puts a premium on good relations with the park authority.

Alan Fishwick, the park's assistant chief planning officer, says that Forest Enterprise's new approach based on forest design plans is a welcome development. "We are involved at an early stage, which has enabled common objectives to be agreed," he says.

Tony Juniper, forestry specialist at Friends of the Earth, agrees there has been "a dramatic change" in the Commission's approach. "They juggle their various objectives much better than they did 10 years ago," he says.

But there is also concern in the Lake District park about the growing commercial pressures on the Forestry Commission, and the possibility of privatisation. These pressures, Fishwick says, "are bound to have an influence on what can be achieved, and we do have concerns about the scale and impact of clear felling, for example".



At the Kauttua plant tests have shown that waste can be used as an alternative fuel without increasing emissions

Running on rubbish

Christopher Brown-Humes on a plan to exploit the high energy value of waste packaging

Applying the term "value-added" to waste may seem odd, but it goes to the heart of a European plastics industry initiative to use ordinary waste packaging for energy.

The high energy value of plastics and paper usually discarded with the rest of the household rubbish can be exploited by using them as a fuel in a conventional power plant rather than a municipal solid waste incinerator (MSW).

The project's backers claim the process saves fossil fuel resources and reduces landfill requirements at a price that is both environmentally and economically acceptable.

Tests at plants in Sweden and Finland have shown that the process is technically viable. Now the challenge will be persuading local authorities and power plants throughout Europe to adopt it.

If they do, as much as 30m tonnes of the 50m tonnes of combustible packaging which Europe consumes every year could be used for power generation. That is more than four times the current level, and would represent a saving of 14m tonnes of oil worth £1bn.

The initiative is being promoted by the Association of Plastics Manufacturers in Europe (APME), with support from a number of plastics and packaging manufacturers and the Finnish government.

Combustible used packaging, when converted into a fuel, has a higher energy value than peat, wood or brown coal – plastic is, after all, made from oil.

The basic product, refuse-derived fuel (RDF), is municipal solid waste from which food, glass and metals have been removed. It has a net calorific value of 15 megajoules per kilogram, compared with the 10 MJ/kg rating of ordinary municipal solid waste. Packaging-derived fuel (PDF) is a refined, drier, version of RDF, with a 30 MJ/kg calorific value.

The idea is to use the packaging as a co-fuel, rather than on its own, because quantities of RDF and PDF are relatively limited and plants would probably need to spend more on changing the combustion chamber and modifying flue-gas cleaning equipment if the proportion of RDF/PDF feed were to rise above 30 per cent.

"In most areas there will never be enough PDF to feed a plant. But there will be a power plant that is able to take all the PDF waste in an area as some 5 per cent to 20 per cent of its feed," says Martin Frankenhaeuser, a project manager in plastics and the environment at Borealis Polymers. He says the technique brings energy from waste within the scope of small local authorities which usually do not have access to an MSW incinerator.

At the Kauttua combined heat and power plant in Finland, RDF/PDF has been used as a substitute for coal in trials over the past year. The tests have demonstrated that packaging can be used as a substitute fuel without higher overall emission levels and without damaging equipment.

Reduced coal use has cut sulphur dioxide pollution; however, the higher plastics content has increased hydrogen chloride emissions. Chlorine is present in substances such as PVC, and its corrosive power is the main reason that the combustion equipment is being so closely inspected for signs of damage.

Supporters of RDF and PDF combustion say it fits in well with the broader recycling trend.

According to Fred Mader, deputy director general of APME, combustion and recycling are different solutions to the problem of plastics waste, rather than alternatives.

"Recycling can maximise the environmental benefit of recovering plastics bottles and containers. But there is no benefit from collecting, sorting and cleaning lightweight plastics films," says Mader.

One reason for believing the initiative has a future is the increasing political resistance to the burning of unsorted waste in municipal solid waste incinerators. Older MSW

Would power plants be prepared to pay for waste packaging?

plants have been condemned on both economic and environmental grounds.

This had led plastics industry experts to suggest that, in future, building plants capable of using RDF and PDF as a majority fuel may be more attractive than constructing additional MSW incineration capacity. But this applies only to densely populated areas where volume of supply could be assured.

An important issue will be cost. Kauttua has not had to make significant outlays because it has a suitable "fluidised bed" boiler technology and because it already has a suitable feeding system, handling waste paper from a nearby mill.

Other power plants are likely to have to install a receiving area and feeding line for the material, at the very least. But they could also have to make much more substantial investments, particularly if they do not have "fluidised bed" boilers.

Assessing the scale of such investments is just one of the tasks for the APME to consider when it studies the potential for packaging combustion in power plants in five countries – the UK, France, Germany, Italy and Sweden – in the coming months.

It will also have to take into account the fact that many European countries do not have well-developed networks for separating types of waste. Establishing one would immediately create an extra cost burden.

There is also the vexed issue of who pays. Will power plants accept the plastics industry's contention that packaging fuel has a positive value, because it is cheaper than coal, and because savings on raw materials would more than cover additional installation, operation and maintenance costs. In other words, would power plants be prepared to pay for waste packaging?

It is a question that will almost certainly have to be taken up in the broader context of recycling and landfill costs.

Mader stresses that there is a long way to go, not least because the public tends to link incineration with pollution. This will inevitably complicate the task of securing changes to current legislation, he says. But he still believes that up to 15 per cent of Europe's plastics waste could be used for energy recovery by 2000.

هكذا من الامل

NEVER AGAIN?

Cambodia, 1980

AGAIN. After Cambodia the world said, 'Never again', yet today in Rwanda there is genocide.

Oxfam does not use the word genocide lightly, but there is no other way to describe the mass slaughter happening right now. Men, women, and children are being systematically hunted down, tortured, and killed. The rivers are choked with bodies.

We have not witnessed such horrors since the Killing Fields. And again, like Cambodia, the people who can do something to stop the bloodshed are not doing enough.

At the height of the killing the UN cut its peacekeeping force to 270 men. When the Belgian UN troops were withdrawn they tore up their blue berets in disgust.

We share their outrage.

Half a million people, mainly Tutsis, face imminent death. Over 200,000 are already feared dead. Thousands more are dying every day while the Security Council dithers.

What is happening in Rwanda is a crime. The apathy of the world is criminal.

We believe Britain must use its seat on the Security Council to call for effective UN intervention in Rwanda, now. How many more people must die before something is done?

Will we have to say 'Never again' again?

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MANAGEMENT

On the road to procrastination

Adrian Furnham offers tips on how to perfect your decision-avoidance technique

Having to make important decisions causes considerable stress. Psychologists in the 1960s made monkeys develop stomach ulcers and other signs of corporate stress simply by forcing them to make decisions. In the now notorious "executive monkey" studies, otherwise carefree animals had to choose between options with significant physical consequences such as electric shock. The consistent monitoring and worrying led them to become ill.

And so it is with the modern manager. Told constantly about the importance of change, development, customer satisfaction etc, many middle and senior managers long for a period of stability or as the prayer-book has it, "eternal changelessness".

The stress of decision-making quite naturally leads to the development of numerous effective decision-avoidance techniques. Without doubt, the most popular is to appoint a committee to help the delaying tactics. A good decision-avoidance committee is a group of people who individually prefer to do nothing and who collectively can meet and decide that nothing can be done. Furthermore, the possibility of avoiding a decision increases in proportion to the square of the number of members of the committee.

Committee behaviour positively facilitates decision-avoidance. Thus, as Parkinson observed, the time spent on any item on the agenda is inversely proportional to the sum of money involved. Committees handle trivial matters promptly; the important issues are delayed and rarely solved. But from the delay perspective there is always one sure result; if a committee meets over a long enough period of time, the meetings become more important than the problem they were intended to solve.

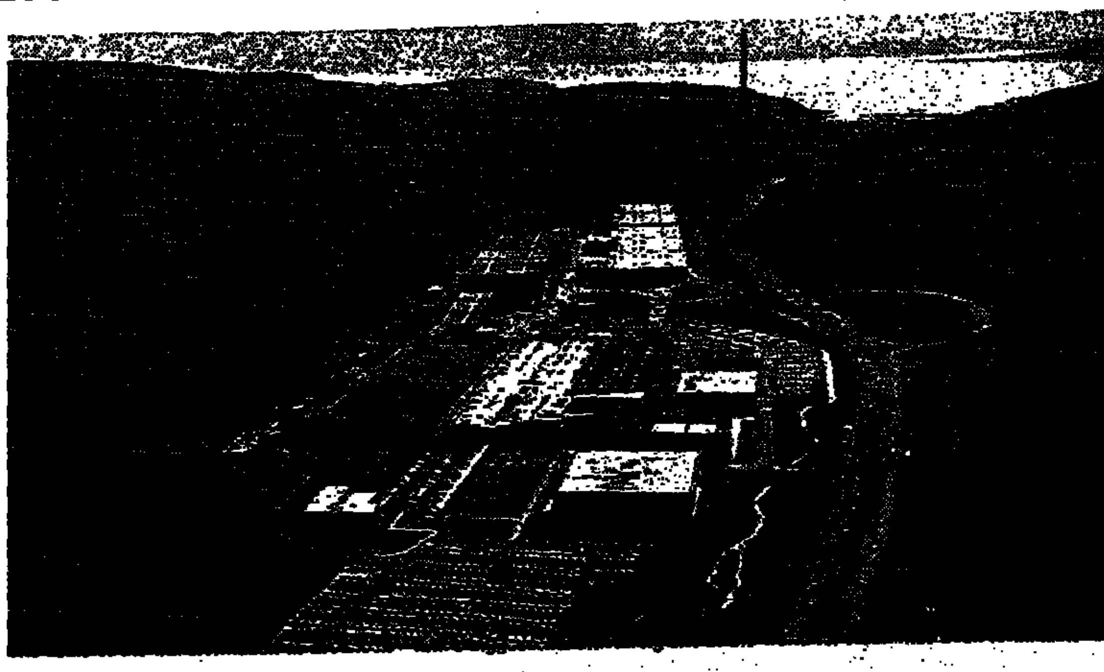
People are unused to thinking in groups – they talk, argue, adjudicate, compromise, joke – but they do not think. In consequence, a really new creative idea tends to destabilise groups and upset consensus. The committee is thus a group which is impelled to agree and is instinctively hostile to that which is divisive or new.

Failing the decision-by-committee avoidance tactic, individuals can resort to their own preferred approach. These avoidance techniques can be used by the same individuals in different situations with equal effectiveness, depending on the type and consequences of the decision and personality of the decision-taker. Probably the six most favoured methods of avoiding a decision are:

- The temper-tantrum method. Here the decision-avoider regresses to the behaviour pattern

of a spoilt two-year-old. Call the decision-requester names, stamp the foot, appear outraged or insulted or even apoplectic. If possible weep with indignation. Often the surprised and embarrassed requester will immediately step down.
- The hush-hush method. Call the requester to one side, and in a conspiratorial stage whisper, point out that he/she is rushing in where angels fear to tread. Suggest that they clearly don't understand the latest company figures, the real wishes of the CEO, the contents of the secret corporate plan etc, and that requesting such a decision will make them look naive, even idiotic. Threatened with this sort of career-limiting move, most decision-requesters will back off.
- The clarification method. This is the "more details please" approach. The person requesting a decision is asked to provide more specifically the reason for, and the nature and consequences of, the possible options available. This analysis-paralysis method is aimed at exhausting the decision-requester as a fisherman exhausts a great marlin at the end of a line. The request for clarification is potentially endless and had nothing to do with actually gaining information. Most requesters eventually give up and thus no decision is made.
- The double-talk method. This method is favoured by those with a command of consultant psychobabble or consultant-speak. The use of management jargon can easily confuse those not fully conversant in this ambiguous language. Try: "But that's against the delayering, re-engineering ethos of this company" or "How does that square with empowerment quality-circles?". The aim is to confuse the requester.
- The denial method. Delay is the deadliest form of denial but also the most primitive. By denying that a decision has to be made and that a situation requires change can be very effective. Said with the square-jaw of "they shall not pass", the denial technique, if consistent, has been known to be highly effective.
- The "that's your problem shorty" method. This method is to hand the problem straight back to the requester. The idea is to make them feel weak, selfish, even demanding, but this requires skill in developing the appropriate degree of hauteur. Handing the problem back to the requester needs to make them feel they should either be adapting to the current situation or making the decision for themselves.

Some might side with Victor Kiam, who noted that "procrastination is opportunity's natural assassin". But decision-avoiders are more likely to believe Thurber's "He who hesitates is often saved". Don't procrastinate – learn a decision-avoidance technique today.



Unwieldy giant reborn in a glen

James Buxton explains how IBM's Greenock plant increased output while lowering manufacturing costs

The problems facing IBM's personal computer business have been highlighted this week with news of another imminent shake-up in top management. Yet the operating challenge for IBM is better illustrated by recent changes at its giant manufacturing complex at Greenock in Scotland.

The aim of this reorganisation – to focus more on the needs of the customer – merely brings the company into line with its competitors. But the scale of the transformation has been formidable, for the Greenock site is Big Blue's biggest manufacturing site in the world for personal computers.

Whether the changes will be sufficient to restore this IBM business to healthy profitability remains to be seen – the personal computer market, after all, is notorious for its volatility, for tiny margins and for the tendency of competitors to rise from almost nowhere and gain market share.

What cannot be denied is that in the past 18 months the seemingly unwieldy IBM facility at Greenock has greatly reduced its unit manufacturing costs, while increasing the volume of output by 50 per cent.

The improvement followed the restructuring in September 1992 of IBM's $9bn (£6bn) PC business, with the setting up of a semi-autonomous company called IBM PC. It also involved a more radical approach than the sort of job cutting which marked IBM's productivity gains in the 1980s.

Despite this, IBM's leading share of the European PC market, which had touched 15 per cent in 1990, had been eroded to about 12 per cent by 1992 as rival manufacturers undercut IBM on price for broadly similar products, and responded more speedily to orders.

IBM PC was set up in response to these pressures. Greenock, which is almost entirely run by Scots, took over the distribution of PCs in Europe, the Middle East and Africa, and 14 distribution operations in different countries were wound up. Previously the country subsidiaries, such as IBM France, had given Greenock a forecast of their needs and then stockpiled computers when they arrived from the plant.

"We used to ship to plan," says Bob Beaty, director of manufacturing and operations at Greenock, "regardless of actual demand or what the individual customer wanted. We then realised that we had to ship to order."

Companies such as Dell in the US and Vobis in Germany had already begun manufacturing to order. But IBM faced the particular challenge of achieving change in a very large-scale manufacturing operation and over such a far-flung distribution network.

Greenock began the process with its Valuepoint range of low-priced computers, then moved on during 1993 to the PS/1, PS/2 and Thinkpad notebook ranges. Beaty says the plant can now ship a product within 10 days of receiving an order.

The orders come in from dealers, country subsidiaries or even individuals. "The printer churns them out 24 hours a day," he says. "We might get an order for 400 Valuepoints all of the same configuration, but they could all be in different permutations. The customer might want his applications software pre-loaded in the factory."

The plant, he says, can now respond to those demands. "The complexity of the business is not the manufacturing, it is the logistics. This is more of a logistics machine than a manufacturing plant."

A smooth components flow is essential to the successful running of the Greenock plant, though many high-value items are common to many product lines, reducing the diversity of the stocks needed. Beaty attributes the cost savings to two factors: a higher degree of vertical integration in the plant than many of its rivals; and the fact that it draws many of its inputs from suppliers who are either a few dozen miles away or at least in the UK.

About half the mother boards which power the computer are loaded with their tiny components inside the Greenock plant. The rest come from six outside suppliers, four of them in other parts of central Scotland.

Some 50 per cent of all monitors are made in the plant, with the rest coming from two local suppliers. Keyboards are made on site. Some assembly and testing of computers is carried out by contract manufacturers nearby.

While many European computer makers import about half their components from the Far East, Greenock depends for 40 to 50 per cent of its inputs on businesses based in the UK. It brings in just 15 per cent from the Far East, with the rest coming from Europe and a small amount from the US.

"We can compete against the Far East with UK costs," says John McClelland, Beaty's superior who has overall responsibility for supplying not only Greenock's market area but also Australia and Japan. "Having a local supplier base is a pretty valuable resource."

Beaty acknowledges that the change to manufacturing to order has been "extremely difficult, but we feel much more in touch with what's happening at the customer end. That is vitally important."

Greenock executives say that since the plant switched to manufacturing to order it has cut its inventory by 25 per cent in absolute terms, while output has risen by between 15 and 20 per cent a year. The cost of what IBM calls "fulfilment" – the processing of orders and the delivery of the product to the customer – has been reduced by two-thirds.

McClelland will not give financial details of Greenock's performance, though Jerry York, chief financial officer of IBM, acknowledged recently that its margins on PCs were lower than those of competitors.

McClelland says that thanks partly to reductions in production costs the company has been regaining market share in Europe in the past year and a half, and quotes an estimate by industry analysts Dataquest that its share of the worldwide PC market rose to 13.6 per cent in 1993.

CONTRACTS & TENDERS

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTION 10(7) OF THE TELECOMMUNICATIONS ACT 1984

A licence to run telecommunication systems under section 7 of the Telecommunications Act 1984 has been granted to Telecom Securicor Cellular Radio Limited.

1. The Secretary of State hereby gives notice:
(a) that he has duly reconsidered the proposals in respect of which be published a notice on 30 December 1993 under subsections 8(5) and 10(6) of the Telecommunications Act 1984 ("the Act") regarding his intention to grant a licence under the Act to Telecom Securicor Cellular Radio Limited ("the Licensee") to run telecommunication systems throughout the United Kingdom;
(b) that he has granted such a licence ("the Licence") to the Licensee, being a licence which includes conditions such that section 8 of the Act applies to them, thereby making the Licensee eligible to have the Telecommunications Code contained in Schedule 2 to the Act applied to it under section 10 of the Act;
(c) that he has applied the Telecommunications Code ("the Code") to the Licensee throughout the United Kingdom. The application of the Code to the Licensee is subject to certain exceptions and conditions. The effect of these exceptions and conditions is that the Licensee has duties:
i. to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
ii. to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
iii. to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and, where appropriate, English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
iv. to keep and make available records of the location of underground apparatus and copies of exceptions and conditions in the Licence to the powers under the Code; and
v. to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
2. The Secretary of State has applied the Code to the Licensee:
(a) because the Licensee will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under the Licence;
(b) subject to the exceptions and conditions referred to above because they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensee can meet (and relevant persons can enforce) liabilities arising from the execution of works.
3. The Secretary of State has granted the Licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
4. The Licence has been granted for a period of 25 years in the first instance and is subject to revocation by the Secretary of State on 30 days notice in the circumstances specified in the Licence.
5. Copies of the Licence may be obtained from the Office of Telecommunications (Library), 50 Ludgate Hill, London EC4M 7JJ, price £16.00 each, postage and packing free.

L Beech (Miss) Department of Trade and Industry
4 May 1994

TECHNICAL ASSISTANCE AND CRITICAL IMPORTS LOAN

GENERAL PROCUREMENT NOTICE
Loan number 3363 - RO

The Government of Romania has received a loan from the Technical Assistance and Critical Imports Funds of the International Bank for Reconstruction and Development (The World Bank). The funds would be used to finance the procurement of various imported goods in accordance with the World Bank's Procurement Guidelines.
At present it is intended to procure with the proceeds of this loan the METERING SYSTEM for OIL TERMINAL S.A. CONSTANTA - ROMANIA, consisting of:

P.D METERS - 16"ANSI 150RF	41 pcs
STRAINES WITH AIR ELIMINATOR - 16"ANSI 150 RF	5 pcs
DOUBLE BLOCK & BLEED VALVE - 16"ANSI 150RF	12 pcs
4-WAY VALVE-20"ANSI 150RF	1 pc
BUTTERFLY VALVE-16"ANSI 150RF	5 pcs
DENSIMETER	1 pc
PROVER 2000 m3/h	1 pc
FLOW COMPUTERS	5 pcs

including spare parts for two years operation, technical specifications, operation manuals, technical assistance for commissioning and starting-up and training for end-user's specialists.

Firms interested in participating in international competitive bidding for supplying those goods and services are invited to register their interest no later than May 15th, 1994, by writing to the Purchasing Agent:

Petrolexportimport S.A.
1-3 Magheru Blvd, Bucharest, Romania
Phone: (40-1) 6 13 30 45
Fax: (40-1) 6 15 65 50
Telex: 11 519 petex r
Cable: Petrolexportimport S.A.

LEGAL NOTICES

BLACK FLAG ASSOCIATES LIMITED
[illegible]
Nature of business: Printers
Trade classification: 10
Date of appointment of administrative receivers: 22 April 1994
Name of person appointing administrative receivers: Kellock Limited
V M BAIRSTOW AND N D BACON
Joint administrative receivers
(Office holder numbers: 5316 and 7906) of 186 City Road, London EC1V 2NU

W & H BAILEY (FRUIT) LIMITED
[illegible] ... the said Liquidator, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
Dated 22nd April 1994 P.S. DUNN, Liquidator

EUROPEAN SMALLER COMPANIES FUND
SICAV
8, Avenue Marie-Thérèse
L-2132 Luxembourg
R.C. Luxembourg No B 20093

DIVIDEND NOTICE

By resolution of the Annual General Meeting held on April 26 1994, a dividend of ECU 0,047 per share class "A" and per share class "B" is declared payable on or after May 6, 1994 to registered shareholders on record on April 28, 1994, and to holders of bearer shares upon presentation of coupon No 10. The shares are quoted ex-dividend as from April 28, 1994.

Paying agent:
Crédit Commercial de France (Luxembourg) S.A.
8, Avenue Marie-Thérèse
L-2132 Luxembourg

By order of the Board of Directors

Japan
NIPPON MEAT PACKERS, INC. CDRs

Referring to its advertisement of 1 April 1993 the undersigned announces that Bonusdividend no. 20 of CDRs Nippon Meat Packers will be payable in cash with US$ 140.49 per CDR repr. 100 shs and with US$ 1.404,90 per CDR repr. 1.000 shs. at Kas-Associatie N.V., Amsterdam and Krediet Bank S.A., Luxembourgeoise in Luxembourg.
Further the undersigned announces that at Kas-Associatie N.V. and Krediet Bank S.A., Luxembourgeoise in Luxembourg div.cp.no. 21 (accompanied by an "Affidavit") of the CDRs Nippon Meat Packers Inc., will be payable with US$ 9,48 per CDR, repr. 100 shs and with US$ 94,80 per CDR, repr. 1.000 shs. (div. per rec-date 31.03.93; gross Yen 15,5 per Sh.) after deduction of 15% Japanese tax = Yen 232,5 = US$ 1,67 per CDR, repr. 100 shs and Yen 2.325,- = US$ 16.70 per CDR, repr. 1.000 shs.
Amsterdam, May 2, 1994
AMSTERDAM DEPOSITARY COMPANY N.V.

PEOPLE

Computer People choose Roger Graham as new chairman

Computer People knows a thing or two about recruitment despite its somewhat lacklustre performance of late. The London-based computer consultancy, which is now back in the black after making a small loss in 1992, is undoubtedly patting itself on the back for having snapped up Roger Graham as non-executive chairman.

Graham, right, on the brink of 55, is one of the leading lights of the UK computer business. A former president of the Computing Services Association and chairman and chief executive of the BIS Group before its acquisition by Birmingham-based ACT last year, he has been in the computer business since 1962.

He has not let the grass grow under his feet since leaving BIS. Last week he was appointed non-executive chairman both of Mantix Systems, which specialises in advanced business management and of Braid Systems which develops messaging software. Both are small, interesting companies with novel products.

An engineer by background, Graham was educated at Cambridge University where he crossed paths with several other individuals who became luminaries in the UK computing services business. He says, however, that his chief interests as a student were rehearsing politics, an interest he still indulges, and flying small aeroplanes.

He first joined International Business Machines as a systems engineer, made his name in sales and then moved to BIS where he stayed for 24 years.

Graham's entrepreneurial spirit remains bright; he talks enthusiastically of the opportunities in networked desk-top computers. The prerequisites for a new venture would be, however, "the right opportunity and the right people".

■ Videologic, a subsidiary of Avesco, has appointed two non-executive directors. Geoff Shingles, 55, was formerly chief executive of Digital Equipment since 1983 and its chairman since 1991, having been with the company in a variety of roles since 1965. Keppel Simpson, 60, spent 25 years at Management Consultants PA Consulting group.

■ Tom Brockbank, 56, has been appointed non-executive chairman of Computerised Financial Solutions, the USM-listed company which provides computer support and administrative services. He was with Hill Samuel – where he was joint head of the smaller companies advisory team – for 20 years, before taking early retirement in 1993.

Shipping group recruits new helmsman

David Cobb, 58, a naval architect, is to take the helm of James Fisher, the Cumbrian-based shipping group, which lost £5.6m pre-tax in its last *financial year.*

He is expected to take over as full time chairman after the company's annual meeting this month.

Fisher has been seeking a new chairman for several months following the departure of John Hornby, who is *understood to have been forced* out by shareholders unhappy with the company's performance.

Charitable trusts own nearly half the company's equity and their income has been sharply *reduced following the company*'s failure to pay a dividend.

Cobb has been managing director of Cochranes of Selby, chairman of Rowbotham Tankships and was chief operating officer of Ingram International in the mid-1980s. He will move his home to Barrow.

■ Crestacare, the UK's third biggest private operator of nursing homes, has made some board changes, promoting James Ramsay, 35, to be group finance director; he joined the company in 1986, becoming group financial controller in 1989. He succeeds Geoff Crowe, who remains company secretary.

The group now manages 37 nursing homes with 2,264 beds located in the north of England, northern Ireland and the Isle of Man.

The group has picked up recently, converting a 1992 loss of £1.58m to pre-tax profits of £341,000 in 1993, despite a number of managerial upheavals and withdrawing from property activities. Andrew Taee, chief executive, recently predicted the company "will bloom" in 1994. The group is looking at all areas of long-term health care.

Colin Brown has resigned from his non-executive directorship of the company.

■ *Mark Ellsmore* has been appointed to the new full-time post of executive director – Asia Pacific at TI Group, the specialist engineering concern.

The appointment comes two months after TI announced it had reached agreement with the Sembawang Group, a leading Singapore-based industrial conglomerate, to develop business opportunities in the Asia Pacific region.

TI said Ellsmore, aged 44, would pursue this initiative and ensure appropriate group resources are allocated to other *strategic opportunities* in the region.

The company believes the Asia Pacific offers strong growth opportunities for all three of its core buinesses, John Crane, Bundy and Dowty.

Ellsmore joined TI Group in 1998 and became finance director of John Crane International in 1992.

He will report to James Roe, director of strategic development, who said Ellsmore's background in finance and marketing and his international experience made him particularly well-suited to his new role.

No Roche at Morgan Stanley

One of London's more charismatic market strategists, David Roche, 47, is leaving Morgan Stanley International, where has has established a reputation for forthright and accurate analysis and research covering areas as diverse as the ERM and the internal problems of the former Soviet Union.

With Morgan Stanley since 1987, Roche is now setting up his own research bureau.

Called Independent Strategy and based in Bond Street in the heart of London's west end, the new company will produce briefings and generate investment ideas for fund managers, in exchange for consulting fees.

Roche says the break away from Morgan Stanley is happening on the very best of terms. As evidence of that, his *erstwhile employer* is to be one of Independent Strategy's first and biggest clients.

Moreover, the move should suit both Roche and Morgan Stanley: "It's absurd to think in this day and age that all research should be conducted in-house. I am moving from being Morgan Stanley's in-house general practitioner to being its external specialist," he says.

Roche argues that his strategy as an independent will be somewhat different, in that it will allow him and his colleagues to give a much tighter *focus to their research and* analysis.

At Morgan Stanley Roche played a key role in re-organising the bank's method of research and analysis, forming industry teams from the previous geographically-based style.

*Among his more famous pre*dictions was that the Berlin Wall would fall, but he has also made a name for himself by being particularly outspoken on east Europe and the European Union's exchange rate mechanism.

Before joining Morgan Stanley Roche worked for J P Morgan as a portfolio manager looking at international asset allocation.

His only worry in the new role is physical – he will be cycling much less than his current impressive daily round trip from west London to Canary Wharf.

Dance/Clement Crisp

The Moscow Festival Ballet

We are witnessing, albeit from a distance, the worst crisis in Russian ballet since the Bolshevik Revolution. Then, for nearly a decade, ballet had to fight to survive and justify itself in a new society. That it did so, manacled by the doctrine of socialist realism, and flourished, says more for the grand aspirations of the Russian spirit then than for socialism. Now, without the sanctions – or the support – of the former regime, Russian ballet must seek to retain its dignity, must adjust to new market forces, must go into the market-place, and must, ultimately, regenerate for a new era.

So the great companies tour, playing their traditional repertory in ever bigger and less convincing arenas, haemorrhaging dancers and teachers, living off an aesthetic that has faded with the commissars. So smaller and opportunistic ensembles are formed, trading on the West's belief that the words "Russian" and "Ballet" are guarantee enough of quality. That they are not has latterly been all too clear: I have found little to admire in performances by such outfits as Moscow City Ballet, with its rickety classical stagings in tremulous performance.

It is pleasing, then, to welcome Moscow Festival Ballet, returned for a third visit to smaller regional theatres. The company has 30 dancers. Its repertory offers gems from the classics – at best, the second acts of *Swan Lake* and *Giselle* – but its director, Sergey Radchenko, whom we remember with the Bolshoi, has recruited interesting soloists, and his dancers are well-trained. (None of those innocent bodies who look as if they should have been in bed – or ballet class – hours ago). The added cachet is the presence, as in previous visits, of Lubov Kunakova, a guest ballerina, a real ballerina, from the Kirov.

There results an evening, as I saw at the Beck Theatre in Hayes on Monday night, which neither cheats the public nor the idea of Russian ballet. Staging is basic – the Hayes lighting was, one might say, unco-operative – but the second act of *Giselle* which opened the evening was absolutely credible, absolutely what it purported to be, a comment I would be reluctant to make about other stagings, both here and abroad. After the initial shock of Hilarion's entrance – he goes mad alone on stage before our very eyes – the text and the performances were serious. In the case of Kunakova, we were given an interpretation of complete authority. A sense of tradition (that mysterious quality that makes the dance seem inevitable), eloquent lyricism, showed us *Giselle* as it ought to be shown – by a ballerina mistress of her art. It was in many ways an "old-fashioned" performance – this is where tradition speaks most clearly about how each incident, each dance-phrase, must be shaped – and I thought it commanding, true. The Albrecht, Alexey Kremnyov, was promising, but still finding his way into the role. The Myrtha, Sanie Rakhmedova, and her wilis, were good. The Beck stage is shallow, but the production (even with taped accompaniment) made one forget this. As in those long-gone days when I used to go to the Mercury Theatre and see ballet crammed on to a six-metre-square stage, I believed. There is no greater tribute.

The second part of the evening (I saw one of two programmes which vary in their components) was given over to divertissement numbers. *The Pas de Quatre* looked coy – Taglioni as a nervous hostess – and a pas d'action from *Esmeralda* was a dark moment of the soul; but in Marina Alexandrova there was an Aurora of distinction, having a lovely seriousness for the last great duet, while as fireworks we had the Solovyov-Sedoy *Gopak*, and the Spring Waters duet, whose costumes (pale green chiffon outfits for him and her) suggest mad cross-dressing, but whose athleticism is of Olympic standard. One reproach: there was no indication of the night's casting from a list of alternative names in the programme. The public is owed this courtesy.

Moscow Festival Ballet tours until May 31.



Candidates for banishment to outer darkness? David Bellamy, Cilla Black and Steve Rider: self-indulgent, naff and gung-ho respectively

Television

Unsullied by wit, taste or quality

Michael Thompson-Noel erases purveyors of small screen tosh

Soon, we are told, our homes will be bombarded by hundreds of television channels, including, possibly, some from other planets. I look forward to tuning into Planet Janet. But long before then, to help us chart a course through the videogrunge of hundreds of earthly channels, we will enter the era of ME-TV.

We will buy a black box that will channel-surf for us, selecting, recording, and, I hope, editing a nightly menu of programmes, or bits of programmes, that will cater to our specific tastes and needs.

I wish I had ME-TV now. By the longest of chalks, British television is the best in the world – so good, indeed, that I cannot keep up with it. If I had ME-TV *now*, it would do the job for me by analysing my viewing habits and noting my instructions. Despite the quality of British television, much would be zapped, censored and expunged. Here are 10 things that would be obliterated from MTN-TV:

1. *Naffness, rubbish and condescension.* This would erase, at a stroke, the whole of ITV, which is now realising its destiny as a petfood-and-tampon channel unsullied by wit, taste or quality. It is a channel for proles, to imprison them in naffdom. What a load of tosh it is, personified, for me, by *such nightmarish visions as* Matthew Kelly, Michael Barrymore, Bruce Forsyth and Cilla Black – especially Black, whose squalidness and commonness, calculated so precisely, is as malign as anti-matter. She should be shot into space, to expire in near-vacuum.

Funnily enough, I like commercials. Federico Fellini once praised British commercials as mini-wonders, so once a week MTN-TV will screen a 30-minute carousel of the latest ads.

2. *Violence.* There will be plenty of (consensual) sex on MTN-TV, but no violence whatsoever. I hate it desperately, especially in news shows, where producers' fondness for hospital footage of war-wounded children and other carnage is a form of pornography.

3. *Channel 4 News.* It is apparently well-regarded, yet it makes dreariness an art form; preciousness, too. It is not so much a news show as a 'phone-in-cum-seminar with snippets of news. I watched it last Friday. Presenter Jon Snow was *still* in South Africa, though there was *no news* to speak of. His first item, on the South African election, lasted 15 minutes and contained *no news whatsoever*. To learn what is going on, MTN-TV will rely on the BBC.

4. *Medical programmes.* I am decaying away nicely. The last thing I would want to watch is half-an-hour on the prostate. *As genetics research makes more and* more progress, it will be possible for us to learn about the likely nature of our deaths. Not me. In the brave new world of MTN-TV, ignorance will foster happiness.

5. *Party political broadcasts.* These will not be censored out completely. There was one recently for the Green Party that was rather good – intelligent, modest in its claims and free of the gallimaufry of lies that constitutes the party-political offerings of the three big grey parties.

6. *Steve Rider, presenter of Grandstand* (BBC1). I watch quite a lot of sport, but the presenters have been lobotomised. These days, given the cost of buying the rights, sports presenters have jettisoned almost all objectivity. Ratings are everything. Everyone is gung-ho, especially Steve Rider. His eyes are horribly close together. That apart, I was staggered at the stupor of sulkiness into which he slumped at the Winter Olympics when it became apparent that Britain's Torvill and Dean – that pair of frozen pilchards – were not going to win the ice-dancing gold medal. T&A were lucky to win the bronze. What Rider was doing there I could not imagine.

7. *Soaps and situation comedies.* I used to like *Coronation Street* (ITV), but can no longer find the time for it. On the other hand, MTN-TV will screen plenty of drama, films and current affairs. There is not much drama about at present, unless you count *The Lifeboat* (BBC1), in which Lynda La Plante, of *Prime Suspect* fame, is said to have had a hand. It is set, says the Beeb, "off the rugged Welsh coast." At first I wondered if they had shot it in Welsh, as another filmic sop to all those Welsh whingers with nothing better to do than blow up holiday cottages. They hadn't, though even in English I found its hairy-chestedness silly.

If there is not much drama about at present, there is a surfeit of first-rate documentaries. *Q.E.D.: Plastic Fantastic* (BBC1) was a marvellous account of the alleged discovery, by Maurice Ward, an eccentric ex-hairdresser, of a miracle plastic, a so-called "smart" material called Starlight which can withstand amazing heat levels and may save mankind from invasion by Planet Janet. Starlight HQ is a bungalow in Hartlepool. Some scientists, including Nasa's, seem impressed with Ward's claims. *By some calculations, the invention* is worth billions. But Ward is proving reluctant to share or sell his formula.

Another excellent current affairs programme was *The Disorderly House of Windsor* (Channel 4), which put the boot in so effectively that I wondered if Queen Elizabeth II and her hapless family were not about to book one-way tickets through the Channel Tunnel to start life afresh in a small town in Germany.

8. *David Bellamy.* There will be a lot of wildlife programmes on MTN-TV. In time, our children's grandchildren will view the late 20th-century wildlife video library in horrified amazement that we presided over the extinction of so many species. But I can no longer watch David Bellamy's self-indulgent antics. His heart is in the right place but his mannerisms – especially the leaping about on all fours – made *Kingdoms in Conflict: The Owl and the Timberman* (Channel 4), about the endangered northern spotted owl in Washington state, unwatchable.

9. *Weather forecasts.*

10. *Angela Rippon.* She is the antithesis of Cilla Black in every respect, and thus just as harmful.

Media experts and bankers to whom I spoke yesterday were delirious with excitement at the range of viewing likes and dislikes likely to be encountered on MTN-TV, and urged me to make it commercially available. I said that I might.

Berio roundly celebrated

David Murray welcomes 'Renderings' on the South Bank

On the South Bank, a *retrospective* festival of Luciano Berio's music is well underway. "Renderings" – the label reflects Berio's penchant for doing things over again, both other composers' things and his own – goes on until May 14 (a semi-staged BBC performance of his opera *La vera storia*). It is strange to think of this inquiring, playful, sensuous spirit as suddenly belonging to a Grand Old Man. Actually his 70th anniversary is not this year, but next; so we may be in for the protracted kind of musical birthday party that has enjoyed a recent vogue.

On Friday Berio conducted the Hallé Orchestra in a programme that might have been designed to highlight his elusive twinkle, and his restless revisiting of old sites. First we had *Twice upon...*, a new participation-piece designed for children from a half-dozen primary schools, with ten Hallé players to guide them through noisy high-jinks. Not so much a score, more a set of crowd-control directions, but there were unmistakable Berio moments: some suspended chords, luminously spaced just so, and his comic relish for superimposing disparate ideas without letting them blend.

We also heard his officially-titled *Rendering* (1990), a respectful mock-up of late Schubert sketches (D.936A) for a symphony in D, with dreamy, celesta-iced interludes out of other late Schubert and Berio's own knight's-move fancies. Not quite enough of the one or of the other, I thought: Schubert's fragments too little fleshed out for a vital reconstruction, Berio's elaborations too shy and bitty to turn the whole thing into an honest post-modern exercise. But *interesting*, of course, and attractive; Berio is never less than interesting or attractive.

Among the famous post-Schoenberg modernists of the 1950s and 1960s – Boulez, Stockhausen, Barraqué, Nono, Maderna – Berio already had more of a pre-"modern" *oeuvre* to his name than most. Only in the early 1950s, when he married a ground-breaking young artist, the American mezzo Cathy Berberian (their creative partnership survived his subsequent marriages) and began studying with Dallapiccola, did the new possibilities of atonality and serialism seize his imagination. So did the extra-musical allure of "semiotics", language as radically re-studied by Eco, Sanguineti and Calvino.

Though British critics have preferred not to examine that side of Berio too closely, it is no less central to his mature work than "pure" musical serialism. Even in his early, conscientiously formal experiments, Berio scores sounded more transparent and lyrical, more direct and often more mischievously inconsequent – more Italian – than anything by his Euro-revolutionary comrades. His fascination with *procedures* has always been leavened by his concern for the human voice, and what – in countless different ways – it can say.

Friday's main work was his "new" quasi-cantata *Epiphanies*, for mezzo and orchestra. This is Berio's latest, joined-up and presumably definitive version of what used to be his looser *Epifanie* sequence (1969), but was originally a set of brief studies (1959-62: *Quaderni*, "notebooks") for the overweeningly large orchestra that a lucky young composer could command in those palmy days. Berio soon wanted to interpolate vocal movements amongst them. *Sung, spoken or muttered*, the "epiphanies" are drawn from revered Euro-authors (Proust and Joyce, *Machado* and Brecht); here, young Charlotte Hellekant was *superbly in command of* Berberian's wide-ranging multilingual role.

Re-adjusted by Berio's master hand, the dramatic half-hour sequence of *Epiphanies* – more exactly, its *rhetorical* succession of highs and lows, limpid breadths and gnomic compression – works a treat. It grips, surprises and convinces.

In detail, however, it seems more of an autobiographical music-album than a integral whole. The earliest *Quaderni* bits are impacted neo-Webern shards; they share few of their manners with Berio's later solo-voice effusions, when the challenges of his unadorned *Sequenze* forced him to seek plain, ground-level ways of developing his music for ordinary ears. The fruits of that experience can be heard in the remaining concerts, and in particular the complete, astonishing *Sequenze* will be delivered by suitable virtuosi this Thursday.

INTERNATIONAL ARTS GUIDE

BORDEAUX

MAY FESTIVAL
Despite sweeping cultural cutbacks earlier this year, Bordeaux is going ahead with its annual May Festival, which opens on Fri and runs till May 20 at various halls, churches and châteaux. Alain Lombard conducts Orchestre National Bordeaux Aquitaine tonight and tomorrow in a Mendelssohn programme, followed by Mahler's Second Symphony on Fri and Beethoven's Ninth on Sat. Trio Sartory plays Beethoven string trios on Sun. Trinity College Choir on Mon presents a programme ranging from Lassus to Britten and Messiaen. Beginning on Mon, Bordeaux's ballet company presents a week of jazz-inspired choreographies. Britten Quartet gives a recital on Tues (5648 5854)

COLOGNE

Opernhaus The main production this month is Macbeth with Alexandru Agache and Elizabeth Connell (May 6, 13, 15, 20, 23, 29). Repertory also includes a TanzForum production of Peer Gynt choreographed by Jochen Ulrich, and Ariadne auf Naxos with cast headed by Alexandra Marc, Barbara Kilduff and Peter Svensson (0221-221 8400)
Philharmonie A six-week festival entitled MusikTriennale 94 opens next Tues, embracing traditional symphony concerts, new music programmes and children's events. Guest orchestras include the Berlin Philharmonic and Chicago Symphony (0221-2801)

COMPIEGNE

The newly restored Théâtre Impérial, 60km from Paris, is hosting four performances over the next two weekends of Ambroise Thomas' long-forgotten opera Le Songe d'une Nuit d'Ete. Michel Swierczewski conducts a staging by Pierre Jourdan, with costumes from Royal Shakespeare Company (freephone 0503 1346)

LEIPZIG

Gewandhaus Fri: Saulius Sondeckis conducts Lithuanian Chamber Orchestra in works by Haydn, Mozart and Rossini, with violin soloist Gil Shaham. Sun: Simon Rattle conducts CBSO in symphonies by Tippett and Bruckner (0341-713 2280)

COPENHAGEN

Royal Theatre The final three weeks of the season bring performances of Der Rosenkavalier, Lohengrin and a new production of two Mahler ballets by John Neumeier (tel 3314 1002 fax 3312 3692)
Tivoli The 1994 music programme is under way, with symphony concerts or recitals most nights. This week's events include a performance on Sat of Cherubini's Missa Solemnis by Danish Radio Orchestra and Chorus under Elio Boncompagni (3315 1012)

FRANKFURT

Alte Oper Tonight: Ghena Dimitrova and Paata Burchuladze sing Italian arias and duets. Tomorrow, Fri: Eliahu Inbal conducts Frankfurt Radio Symphony Orchestra in works by Webern, Schoenberg and Schumann. Fri (Mozart Saal): Felicity Lott song recital. Sat: Saulius Sondeckis conducts Lithuanian Chamber Orchestra in Mozart and Rossini, with violin soloist Gil Shaham. Sat, Mon (Mozart Saal): Richard Goode plays Beethoven piano sonatas. Sun: Jukka-Pekka Saraste conducts Deutsche Kammerphilharmonie in Sandström, Schoenberg and Brahms. May 11-14: Metropolitan Opera Orchestra and Chorus under James Levine (069-134 0400)
Jahrhunderthalle Hoechst Tonight, tomorrow: Cullberg ballet in choreographies by Mats Ek. Fri: extracts from Andrew Lloyd Webber musicals. Sat: Georges Prêtre conducts Bamberg Symphony Orchestra in works by Bizet and Prokofiev. Mon: Rafael Frühbeck de Burgos conducts Berlin Radio Orchestra in Falla, Turina and Stravinsky, with piano soloist Alicia de Larrocha. Tues: Simon Rattle conducts City of Birmingham Symphony Orchestra (069-360 1240)
Oper Sat: Frankfurt Ballet in choreographies by William Forsythe and Amanda Miller. Sun: Guido Johannes Rumstadt conducts first night of Nuria Espert's production of Elektra, with cast headed by Janis Martin (repeated May 12, 15, 18, 29). Next Wed: Cornelius' comic opera Der Barbier von Bagdad (069-236061)
English Theater Kaiserstrasse Arthur Miller's play The Ride Down Mount Morgan, daily except Mon till May 21 (069-2423 1620)

GOTHENBURG

Konserthuset Tonight, tomorrow, Sat afternoon: Neeme Järvi conducts Gothenburg Symphony Orchestra and Chorus in Verdi's Requiem. Fri: Murray Perahia piano recital (031-167000)

HELSINKI

Finnish National Opera The main event this week is the world premiere on Fri of Jorma Uotinen's new ballet Sonata in Glass, with music by Sibelius (repeated May 10, 13, 21, 28, 31). Repertory also includes Carmen, L'elisir d'amore and La traviata (0-4030 2211)

HAMBURG

Staatsoper The main event this week is the premiere on Sun of a new production of Khovanshchina, conducted by Gerd Albrecht, staged by Harry Kupfer and designed by Hans Schavernoch, with cast headed by Olga Borodina and Matti Salminen (repeated May 12, 15, 20, 23, 26, 29). Repertory includes Le nozze di Figaro and two Mahler ballets by John Neumeier. Christa Ludwig gives a farewell recital on Fri (040-351721)
Musikhalle Visiting orchestras during the coming week are the Leipzig Gewandhaus with Kurt Masur on Fri and City of Birmingham Symphony with Simon Rattle next Wed. Dave Brubeck gives a concert tonight, followed tomorrow by Virtuosi Saxoniae. North German Radio Symphony Orchestra plays a Brahms and Rakhmaninov programme on Sun morning, Mon and Tues (040-354414)

LYON

Opéra Kent Nagano conducts orchestral works by Shostakovich, Ravel and Dvorak next Tues. Felicity Lott gives a song recital on May 18, and La traviata opens on May 19 for nine performances (tel 7200 4545 fax 7200 4546)

MUNICH

MUNICH BIENNALE
Munich's festival of new music-theatre runs till May 22. This week's premiere is Freeze by Dutch composer Robert Zuidam (b1964), based on the tale of Patty Hearst (tomorrow, Fri, Sat at Muffathalle). Next week brings Der blaue Stein by Paul Engel (b1949). Benedict Mason's new football opera Playing Away receives its first performance on May 19 (089-48098 614)
OTHER EVENTS
Gasteig Tonight, tomorrow, Fri, Sat: Hiroshi Wakasugi conducts Munich Philharmonic Orchestra and Chorus in works by Stravinsky, John Adams and Betty Olivero. Next Mon: Alexander Lazarev conducts Bavarian Radio Symphony Orchestra and Chorus in a Wolfgang Rihm world premiere. Next Tues: Justus Frantz is pianist and conductor in a Beethoven programme with Sinfonia Varsovia (089-4809 8614)
Staatsoper Fri: Cosi fan tutte. Sat: La forza del destino. Sun, next Wed: Salome with Gwyneth Jones. Tues: Don Pasquale. May 14-23: ballet festival with guests including Sylvie Guillem and National Ballet of Canada (089-221316)
Deutsches Theater Ballet Teatro Espanol presents choreographies by Rafael Aguilar, daily except Mon till May 15 (089-5523 4360)

OSLO

Konserthus Tomorrow: Emmanuel Krivine conducts Oslo Philharmonic Orchestra in works by Richard Strauss and Franck (2283 3200)
Folketeatret Tomorrow, Sat: Heinz Fricke conducts Mike Ashman's Norwegian National Opera production of Das Rheingold. May 14, 19: Die Walküre (2242 7724)

STOCKHOLM

Berwaldhallen Tonight: Leif Segerstam conducts Swedish Radio Symphony Orchestra in works by Sandström, Chopin and Ravel, with piano soloist Angela Dôme (08-784 1800)
Royal Opera Tomorrow, Fri: Swedish Ballet School presents Konstantin Damianov's production of Coppelia. Next Mon, Tues, Wed, Thurs: video of the Barenboim/Kupfer Ring at Bayreuth (08-248240)
Konserthuset Mon: Murray Perahia piano recital (08-102110)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Edward Mortimer

Free to be held captive

Britain's tough immigration laws are unfair and carry an economic price

More than two centuries ago Lord Justice Mansfield established the doctrine that any human being who set foot on English soil automatically enjoyed the rights of a free man under English law. First and foremost among those rights is the one enshrined in the Habeas Corpus Act, passed in the reign of Charles II, which forbids the detention or imprisonment of anyone unless due cause is established in court.

But Lord Mansfield's doctrine took a severe knock when parliament passed the Immigration Act in 1971. That law gives immigration officers the right to detain anyone arriving in the UK for as long as it takes to decide whether that person has a right to enter the country and, if not, whether he should be given leave to do so.

Under this provision, people can be detained indefinitely. There is one person now in HM Holding Centre Haslar (a prison near Portsmouth) who has been in detention for a year and four months – and even that is not the record.

After visiting Campsfield Detention Centre near Oxford earlier this year I received many telephone calls from people held there who have requested political asylum. One of them, Appolinaire Egny – a computer technician who defected from the ruling party in the Ivory Coast, and fled the country after his brother was arrested last autumn – wrote me a letter of such eloquence that I felt I must try to help him. On the advice of the Refugee Legal Centre I sent a fax to the chief immigration officer at Heathrow airport, where Mr Egny's file is kept, asking that he be spared further detention and offering to have him as a house guest pending a final decision on his case.

In reply I got a courteous phone call. The officer regretted he could not grant temporary admission to Mr Egny at this stage, "for reasons I am not at liberty to disclose". I asked if Mr Egny's lawyer was aware of those reasons. "No. It's not our policy to give reasons. Our powers are discretionary."

The officers of Charles I or Charles II could not have put it better. As for Lord Mansfield, he must be turning in his grave.

If Mr Egny had been arrested for a crime, the police would have had to convince a magistrate that there were good reasons to remand him in custody; otherwise he would be entitled to bail. But the Bail Act does not apply to people held under immigration law.

To such complaints there is a standard reply: "If you don't like it you are free to go": that is, to be deported to your country of origin. But that begs the question which is being examined, namely whether the applicant can safely return home. "Alas," wrote Mr Egny in his letter to me, "today, if I could return home I would, with fanfares and hymns of joy." But to do so "would be bold to the point of madness".

The UK 'has failed to reap the economic benefits from selective skilled migration'

The same catch 22, or a similar one, has overturned Lord Mansfield's judgment even more directly. There are people in Britain today who are to all intents and purposes slaves. They are domestic servants whose passports are in their employer's possession. In some cases they do not even have passports of their own, but enter the country on their employer's passport, as if they were his or her child. They work up to 18 hours a day for very low wages, and sometimes are not allowed out of the house or flat for weeks on end. In most cases they dare not complain, for they know that if their employer dismisses them they have no right to be in the country, and therefore no chance of finding any other legal employment.

Mr Dudley Fishburn, a Tory MP, went to the Home Office last week to try to win some protection for these people. But any protection they are offered will be meaningless unless it includes the right to stay in the country and seek work. Their situation is only an extreme form of the jeopardy in which millions of illegal immigrants live throughout the industrialised world. Such immigrants frequently work in health and safety conditions far below the legal standard, but dare not complain for fear of being deported.

Thus tough immigration laws create a kind of apartheid between the legal residents of a country, who enjoy various human, civil and social rights, and the illegal residents who do not. Such laws also interfere with economic freedom. According to Allan Findlay, director of the Applied Population Research Unit at Glasgow University, "the UK government's negative attitude to immigration has sold the country short. It has failed to reap the economic benefits from selective skilled migration, foregone the investment and jobs which entrepreneurs could provide, and prevented companies from benefiting fully from inter-company transfers."

That is one of the conclusions of a recent study by the Institute for Public Policy Research*, which exposes the protectionist reflexes behind current British immigration policy. In trade policy the UK government is rightly sceptical of the notions that economic activity is a zero-sum game, that there is a finite pool of jobs to be shared out, and that rewards for foreigners necessarily mean losses for UK citizens. Yet those are precisely the assumptions that dominate immigration policy, and which are so unquestioned that Home Office officials approached by the IPPR could not even see "what purpose new research would serve". Ministers "had already decided what immigration policy should be," and "they doubted that ministers would reconsider their approach".

Perhaps new ministers are needed, as well as new research.

Strangers & Citizens. A positive approach to migrants and refugees. Edited by Sarah Spencer. (Rivers Oram Press, £14.95)

Daniel Green looks at the long-awaited start of restructuring in the international drugs industry

Remedies for a global sickness

The pressures on the world's pharmaceuticals industry have exploded into corporate action.

On Monday, Switzerland's Roche announced it would pay $5.3bn for US drugs company Syntex. Yesterday, the Anglo-US company SmithKline Beecham said it was buying Diversified Pharmaceutical Services, a US company, for $2.3bn. Within hours, US conglomerate Eastman Kodak said it wanted to sell its three healthcare divisions, including Sterling Winthrop, which have combined annual sales of $3.7bn.

On the surface each deal looks different. SmithKline Beecham is buying a passport to the dispensers and prescribers of drugs. Roche will absorb a research-based company like itself. And Kodak is escaping from the industry entirely.

But they represent three distinct solutions to one problem: that drugs companies' profits in the industrialised world are under pressure from governments, employers and insurance companies determined to drive down costs.

These pressures have been particularly acute in the US. The Clinton administration has proposed sweeping healthcare reforms in an effort to cut the cost of treating sick Americans – including the possibility of capping drug prices, a move which would alter the economics of drug development, which depend on high returns from heavy investment.

Though the reforms have not yet been fully debated, the price of drugs is already being squeezed. Those who ultimately pay for the drugs – insurance companies who meet claims and employers who pay premiums – are employing intermediate companies, called healthcare management organisations or pharmacy benefit managers, to negotiate discounts with drugs manufacturers.

Mr Jan Leschly, chief executive of SmithKline Beecham's since last week, yesterday outlined four further causes for consolidation in the sector:

● Attempts by governments in Europe and Japan to control pharmaceuticals prices, which have depressed prices generally – even for drugs not specifically targeted.

● The trend towards generic substitution in which drugs buyers abandon a branded product in favour of a cheaper, unbranded alternative. This has been a particular problem for Syntex: the company's profits in recent years were based largely on the success of an anti-inflammatory drug, Naprosyn. At its peak two years ago, Naprosyn's annual sales peaked at $1bn, but in December last year, Naprosyn's patent protection expired, and its sales fell by more than 50 per cent in four months.

● Therapeutic substitution, in which a cheaper drug, often non-branded, is used on grounds of price. This could happen later this month when SB's ulcer treatment, Tagamet, loses patent protection and doctors could choose it over Glaxo's more expensive Zantac.

● Escalating development costs. The increasing popularity of generic and therapeutic substitution means that many companies are focusing on trying to create unique products. As research into well-understood areas is dropped in favour of pioneer work, more scientists have to be employed and subsequent clinical trials are more expensive and time-consuming.

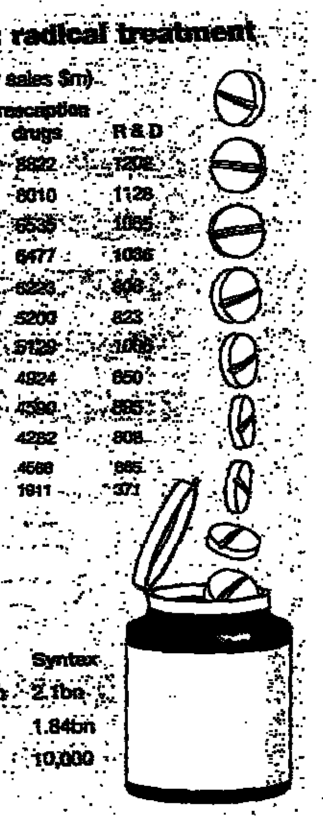
Global drugs industry: radical treatment

The top 10 drugs companies (by sales $m)

Rank	Company	Prescription drugs	R&D
1	Merck	8822	1200
2	Glaxo	8010	1128
3	Bristol Myers Squibb	6535	1055
4	Roche/Syntex group*	6477	1035
5	SmithKline Beecham	6223	896
6	Hoechst	5200	823
7	Pfizer	5129	1089
8	Johnson & Johnson	4924	850
9	Eli Lilly	4590	895
10	Ciba	4282	808
* Resident ranking	Roche (9)	4566	865
	Syntex (27)	1911	371

The new partners	Roche	Syntex
Total sales ($)	10.21bn	2.1bn
Pharmaceutical sales ($)	5.57bn	1.84bn
Employees	56,500	10,000

Source: Lehman Brothers



Most healthcare executives agree with this analysis of the pressures on their industry. But while they agree on the causes, the executives of Roche, SmithKline Beecham and Kodak disagree on strategy.

SmithKline Beecham's purchase, Diversified Pharmaceuticals Services, is a pharmaceuticals benefit manager (PBM). Such institutions were born in the 1980s in the US with the aim of providing services to insurance companies and employers in their dealings with hospitals and drugs companies. Typically they process claims, offer ranges of drugs secured at discount prices and substitute generic alternatives for more expensive branded treatments.

SmithKline's deal is an echo of last summer's $6bn purchase by Merck, the biggest US drugs company, of drugs distributor Medco, whose business is similar to Diversified's. SmithKline began talking to Diversified's parent company, United Healthcare, in August 1993, just weeks after the Merck-Medco announcement. Because of their direct contacts with purchasers and doctors, Medco and Diversified can promote their owners' drugs to doctors at the expense of rival offerings.

Mr Leschly stresses that SmithKline's acquisition represents more than this, however. He says that the future of the healthcare industry lies not simply in treating diseases but in "managing them" for a set fee per person over a set period. With its acquisition of Diversified, SmithKline would become involved in all stages of looking after health, he maintains.

Drugs companies are under pressure from governments determined to drive down costs

The reasons for Roche's takeover of Syntex are more traditional, with no overarching vision of a transformed world of healthcare. Mr Paul Freiman, Syntex chairman, says his company's pipeline of drugs in development has simply become too expensive for it to develop alone. The main drug in development is Mycophenolate Mofetil, used to prevent rejection in organ transplant patients, which cost "about $50m a year, before overheads and support".

"At $400m, [last year's R&D budget] we could probably not absorb all of the products in our pipeline if we kept the spending at that level. We had decided in our strategic plan that we needed alliances – from joint ventures to buying small companies, to selling to a bigger company," says Mr Freiman.

Roche sees its acquisition of Syntex in an even more old-fashioned light: it can cut Syntex's costs as it merges the operations of the two companies, and it gains access to drugs still in development.

Roche is cagey about how many of Syntex's 10,000 employees will lose their jobs. It insists that the acquisition is only the latest stage in a seven-year strategy for US growth. This began in earnest in 1990 when it bought California biotechnology company Genentech for $2.1bn.

While Genetech was the gateway to the latest science of biotechnology, Roche sees Syntex as a route to the US over-the-counter drugs market.

OTC is gaining in importance as a means of making the patient pay directly for a treatment rather than through taxes, as in Europe, or insurance premiums, as in the US. Roche is strong in OTC through its vitamins business and should be able to boost the sales of Naprosyn in the wake of the approval last month by the US Food and Drug Administration of an OTC version.

For Kodak, it appears that neither alliances nor acquisitions are the right solutions to the problem of falling drugs prices. Its way of addressing the turmoil in the healthcare industry is to bid it farewell.

The company wants to concentrate on its core businesses and its move yesterday is an acknowledgement that the $5.1bn the acquisition of Sterling Drug in 1988 was an error. Elf Sanofi, Sterling's European partner, has already begun a strategic review with a view to buying all or part of Sterling. Asset sales of its own are possible, "given the size of a possible transaction," it said.

There is no shortage of potential deals in the healthcare industry while the pressures on profits remain. Companies in a similar position to Syntex include Upjohn, the US company, which has seen patent run out on its biggest-selling products in recent months, for example on Xanax, an anti-depressive. Other potential buyers have the cash-pile that Roche and SmithKline have been spending. Top of the list is Glaxo, the biggest European drugs company, which has yet to find a home for cash reserves of more than $2bn. Chief executive Mr Richard Sykes said recently that he intends to do a deal in the US by spring next year.

This week's shake-out may be seen in retrospect as just the beginning of a long-awaited industry restructuring.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Investment thrives on instability

From Mr Mark Godridge.

Sir, Barry Riley's concerns at the instability in markets created by US mutual funds flows ("American money brings new risks to markets", April 27) ignores real life and common sense.

He reports that the financial economist Mr Henry Kaufman has "worries" about this instability – I would suggest that Mr Kaufman is pointing at the dragon in the cave but ignoring the gold it is sitting on. In the words of the billionaire investor Warren Buffet in his latest annual report: "True investors welcome volatility." The risks of instability create opportunities for those prepared to take advantage of them – the forced buying or selling by mutual funds coping with customer money flows is confronted in the marketplace by those with the nous to anticipate and capitalise on it.

I find Mr Kaufman's suggestion of a 60-90 day withdrawal notice period from mutual funds laughable. First, he wrongly assumes that mutual fund managers have no ability to anticipate redemptions and take appropriate action. Second, the market would move to discount the ending of a particularly choppy period by looking at fund flows – and could create the sort of volatility Mr Kaufman is seeking to diminish. Third, his concerns presuppose a "correct" level of volatility to which the notice period would encourage reversion. I would love to see his suggestions as to what this level should be.

Perhaps Mr Riley's next article should be to examine how much money investors could have made recently by actively taking advantage of market conditions, rather than sitting around fretting about them like Mr Kaufman.

Mark Godridge,
1220 Park Avenue, Apt 9A,
New York, NY 10128, US

MEPs must tackle issue of unnecessary legislation

From Mr Christopher Jackson MEP.

Sir, Your editorial, "Europe's parliament" (April 3) makes many valuable points – notably that the parliament is "a case study in unwieldiness". However, the key problem to which you refer – our traipsing between Brussels and Strasbourg – is forced on us by the governments of the member states, including Britain. They have insisted that this costly and absurd state of affairs shall continue. Do not forget Luxembourg, too, the place MEPs never visit, but where parliament's main library is forced to remain; nor French blackmail over the elections to the European parliament, forcing a disgraceful signature by the parliament's president of a lease for a new, unnecessary hemicycle in Strasbourg at great benefit to the French.

There is much to sort out. There are two crucial issues: increasing the effectiveness of our communications with industry in the early stages of consideration of the laws we make; and reducing (and repealing) unnecessary and costly legislation of which we have had too much in the past five years of the Labour-dominated European parliament.

Interest in this parliament is justified by its legislative power to affect lives, jobs and Europe's wealth. That is why the European elections on June 9 matter.

Christopher Jackson,
Palais de l'Europe,
Strasbourg, France

More a kind of insurance policy

From Mr David Taylor.

Sir, I suspect that the "naive faith" on the part of some senior Whitehall decision-takers ("Value for money", April 26) has far less to do with perceived need for outside, objective endorsement for significant projects than with a desire to have someone to blame and to get access to an indemnity insurance policy in the event of a failure.

More is the pity, for, as you say, management consultancy properly and positively employed can prove excellent value for money.

David Taylor,
chartered accountant,
31 Sion Hill,
Bath BA1 2UW

Treasury's undignified retreat

From Mr Brian Gill.

Sir, The UK government's cultural bankruptcy and moral impoverishment is surely complete with the announcement that the Treasury is to sell up and beat an undignified retreat from the corridors of power ("Treasury mandarins' cost controls strike home", April 29, "Des res for buyer with £60m", April 30).

The contrast with the Foreign Office could not be more complete. The FO stiffened its lips, tightened its belt, and produced what must be one of the most magnificent and uplifting restorations of government buildings at home or overseas, demonstrating yet again its knowledge of the way the wider world really works.

By all means let the Treasury mandarins send themselves and their servants off to the Lubyankas of Croydon or Docklands – many would claim they deserved no less; but hand the buildings over to some more worthy department that understands their worth.

Brian Gill,
261 Grove Street,
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London SE8 3PZ

Challenge to human resource management theory lacks evidence

From Ms Sue Fernie and Mr David Metcalf.

Sir, Mark McKergow (Letters, April 11) expresses concern about the fact that our measure of employee-management relations is subjective. This is so: how can it not be? But the suggestion that human resource managers would be more likely to report worse industrial relations than traditional managers is mere speculation. After all, their whole *raison d'être* is to improve such relations. The fact that managers responsible for personnel report honestly is supported by the high correlation between their responses and those of worker representatives, which are almost identical across the 2,000 plus workplaces. This implies that our measure accurately represents the climate of relations in these work places.

No one denies that the bottom line in human resource management (HRM) is profitability and financial performance; Duncan Brown (Letters, April 11) seems to suggest we do. But surely HRM is also supposed to produce good industrial relations? To the best of our knowledge ours is the first UK study that attempts to relate HRM practices to either industrial relations or economic outcomes. We shall be interested to see the evidence alluded to by Mr Brown that "HRM practitioners have been making major strides in fighting the British disease" (whatever that is). We know of no other research which relates HRM practices to economic outcomes.

Our own work suggests a dichotomy. HRM appears to be associated with better economic outcomes in the workplace – higher productivity and better performance on the jobs front – but worse industrial relations outcomes – higher number of resignations, higher absenteeism and less good relations between management and employees. Instead of making cheap points against empirical research Mr Brown should give us his evidence on this important topic.

Tom Barry (Letters, April 11) is reluctant to admit that personnel hierarchies exist in workplaces. They do – you only have to look at National Health Service trusts. But even in "flatter" organisations someone has to take decisions. Therefore it is important to consider what makes for good or bad relations. Our own work casts doubt on the self-serving idea that HRM techniques are the vision of the future, for better management/employee relations.

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FINANCIAL TIMES
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Wednesday May 4 1994

South Africa looks forward

South Africa's transition from minority rule to democracy is something to celebrate. Not even the painfully inefficient election count can spoil an event of such moment and one whose significance extends well beyond the region. A stable, democratic and economically successful South Africa might yet offer hope for a continent debilitated by debt, disaster and disease. It could even become a model for other countries where ethnic and racial tensions present seemingly insuperable barriers to economic progress.

Fulfilment of these hopes will be as difficult as the transition itself, but South Africa has made an encouraging start. President F.W. de Klerk has left office with a grace that has enhanced his reputation and augurs well for his expected role as second vice president. General Constant Viljoen, the former armed services chief, steered the conservative right away from confrontation and into the election. He deserves credit for defusing what could have been a destabilising clash.

Above all, the president-elect, Mr Nelson Mandela, leader of the victorious African National Congress, is preparing for office with the pragmatism and compassion that is his hallmark. With the grim legacy of apartheid all around him, he was right to strike a note of urgency in his victory speech on Monday night, promising that he and his team will roll up their sleeves and get South Africa back to work.

Cabinet places

He was also wise to offer places in his cabinet to parties which failed to reach the 5 per cent that would give them automatic representation in a government of national unity: the liberal Democratic party, the radical Pan Africanist Congress and Gen Viljoen's Freedom Front, which seeks reassurance that Afrikaner culture will survive. It would be wise to extend a similar invitation to Chief Mangosuthu Buthelezi, although his Inkatha Freedom party may have attracted sufficient votes to secure it a cabinet seat. Chief Buthelezi's difficulties with the ANC and its leader are well-known. Yet nothing can be lost by attempting to bring this prickly personality into the fold.

In selecting his cabinet Mr Mandela must also look beyond his domestic constituency. A careful balance is needed to reassure international investors, who look for stability. They will wish to see continuity of the sound economic policies that have characterised the transition. The retention of Mr Derek Keys, the present finance minister, in one of the main economic portfolios, would constitute a clear signal that this is understood. Mr Chris Stals, the governor of the Reserve Bank, should be asked to stay in his job. It may be difficult for Mr Mandela but room should be found for both men, not as token whites but as key players in South Africa's new economic team.

Investment code

Mr Mandela must also be on his guard against those who argue for an investment code. Rev Leon Sullivan, the US-based campaigner, achieved some success in urging foreign companies who decided to maintain their operations in the old South Africa to end discrimination on the shop floor, introduce training programmes and accept social responsibilities in the black community. He and others now advocate similar terms for would-be foreign investors. These objectives are well-meant, but to make them a condition displays a misunderstanding of the tough competition for investment. No lobby urges the same conditions for other developing nations.

Some investors are showing strong interest in post-apartheid South Africa, whether as a market in its own right, or as a base for operations in the rest of Africa. Yet the new government is in no position to lay down terms that might drive investment capital to more attractive Asian homes. Indeed, Mr Mandela should bear Asian lessons closely in mind as he looks to the future. That implies a market-driven exchange rate, a competitive business environment, a close partnership between government and the private sector, trade liberalisation, encouragement of multinationals with their worldwide marketing facilities, technology and management skills and an efficient civil service. He will best serve the new South Africa if he applies these principles. He might also then galvanise the rest of Africa, for whom he is already an inspiration.

Back to the pork barrel

When is a manufacturing subsidy not a subsidy? The answer is: when it is a "focused research and development incentives programme". This is the Clinton administration's euphemism for its decision to underwrite the development of a commercial industry to make flat panel displays, such as those used in portable computers or aircraft cockpit displays. And it raises troubling questions about a developing trend in US industrial policy.

Two themes are emerging. Government research money is being redirected away from specific military projects towards more general commercial ventures. Old fashioned industrial intervention is being glossed up and justified under the heading of technology policy. But the familiar shape of the pork barrel is already discernible.

The defence department acknowledges that its requirements for flat panel displays will never amount to much more than about 5 per cent of the rapidly growing US market. It also concedes that established foreign suppliers – all from Japan – are already in a position to provide affordable products. But it is worried about assured and early access to leading edge technology in what will be the essential interface for the battleground of the future.

Research grants

So it is prepared to offer substantial research grants to those private sector companies which are willing to commit themselves to build production facilities. It envisages providing support for four world scale manufacturing facilities over the next five years, which will have the capacity to take some 15 per cent of the world market for flat panel displays. The initiative will cost the US taxpayer around $110m to $120m a year over that period.

This development is worrying for several reasons. First, it suggests that R&D subsidies – which the Clinton fought to preserve during the Uruguay round – are being abused in order to help domestic manufacturing industry.

Next, there is a long history in the US and elsewhere of government funds being wasted under the heading of strategic technology policy. The attempt to build a commercial synthetic fuels industry and the supersonic transport project are only two of the more egregious examples. All the evidence is that the net impact on productivity of US government R&D spending is lower than the return on privately funded spending, and may even be negative.

It is highly uncertain whether the latest initiative will be any more successful, given that the Japanese are already several years ahead in terms of technology.

Innovators

Moreover, these initiatives invariably favour older, established companies at the expense of innovators. A case in point is Sematech, the government-backed consortium for semiconductor manufacturing technology. It is true that the US chip industry has recovered well in recent years, but this has been based as much on innovative designs as on the manufacturing technology which Sematech was designed to enhance.

Finally, the arguments being used to justify the flat panel display project could easily be extended to cover a host of other industries where the Japanese have a big commercial lead – from ceramics to machining. The defence department has an enormous shopping list: where is the line to be drawn?

All this is not to say that the US administration is powerless to help. It could mount an assault on the Pentagon's extraordinarily cumbersome and bureaucratic procurement procedures, in order to speed up the transfer of advanced technology and reduce development costs. It could simplify the patent system, and revise anti-trust procedures in order to make it easier for companies to come together in joint ventures to develop new technologies. It could consider putting temporary tax incentives for private sector research on to a permanent footing.

A policy of doling out money to companies to help them get back into an industry which they have abandoned is not likely to succeed. What is worse is that it will encourage other governments, notably in the European Union, down the same slippery path.

Superfailure may yet be a success

George Graham says an agreement to reform the US Superfund toxic waste clean-up scheme is in the balance

In what may be their last chance to strike a deal on reforming the controversial Superfund law on toxic waste dumps, government, industry and environmental groups met at the White House yesterday. If an agreement is not reached, the planned legislation may fall off this year's congressional calendar.

The Clinton administration's proposals seek to distribute the costs of dealing with toxic waste sites fairly among the polluters, to cut the money spent on lawyers and to increase the amount spent on actually cleaning up.

But the contaminated land issue is so controversial that any one of many interested parties – chemicals companies, insurers, local governments, environmentalists – could torpedo a bill. Congressional leaders are thus unwilling to press ahead until they have achieved consensus. The effects of Superfund's faults, however, have been felt in insurance markets worldwide; adding, for instance, to the travails of Lloyd's of London.

The Superfund programme has been dogged by problems of cost since it was set up in 1980 and revised in 1986, despite resulting in the clean-up of at least 220 toxic sites on a national priority list of 1,300. "Despite the creation of a multi-billion-dollar public works programme and an awesome new overarching approach to hazardous waste liability, the Superfund solution has become an implementation nightmare," according to Professor Daniel Mazmanian, a professor of political science at California's Claremont Graduate School, and Mr David Morell, head of Epics International, a regulatory consultancy, in their book *Beyond Superfailure*.

Two issues remain fraught: first, what exactly should be done about the chemical and mineral wastes that have for decades been freely dumped without concern for their health and environmental consequences? Second, who should pay?

Existing Superfund law is vague on the first question. Neither in 1980 nor in 1986 was Congress able to establish how clean a cleaned site should be. National standards for acceptable levels of contamination have proved difficult to define without unnecessarily tying the hands of the government's Environmental Protection Agency administrators, in charge of drawing up a clean-up plan at each site. Cleanliness is defined in the law not by substance but by process: were the right parties consulted and the right procedures followed in drawing up the plan?

On the second question of who should pay, by contrast, Superfund law is excessively clear. Liability for the costs of a Superfund clean-up is legally defined as strict, retroactive, joint and several: anyone who contributed in any way to contamination – the operator of a dump, the landowner, the companies that sent waste there, even the road hauliers – can be held liable for the entire cost.

In 1979, estimates showed a national clean-up, taking many decades, would cost between $26.2bn and $44.1bn – and the latest assessment from the Congressional Budget Office puts the bill to the public and private sectors at $230bn in inflation-adjusted dollars. But the original Superfund contained only $1.6bn, so the government's EPA has every incentive to apply joint and several liability ferociously, in order to find someone other than the fund to pay.

Industry, however, has every incentive to fight back, sue other polluters for a share of the costs, and to argue with its insurers over every penny. For instance, ICI Americas, the US offshoot of the British chemicals group and one of the "deep pocket" polluters initially targeted by the EPA to pay for the clean-up of Delaware's Tybouts Corner landfill, sent a 30-page questionnaire to every manufacturer within 100 miles of Tybouts in its search for other polluters. Litigation dragged on from 1980 until 1989 before an agreement was reached on sharing out the costs of the clean-up.

Thus the result of both the vagueness and the clarity has been endless litigation. Developers, meanwhile, shy away from once-used land for fear of some future liability. "Many claim that prospective owners who want to develop property have an economic incentive to use undeveloped, or greenfield, sites to avoid potential Superfund liability, thereby contributing to suburban sprawl and exacerbating chronic unemployment often found in inner-city industrial areas," according to Ms Carol Browner, head of the EPA.

Many flaws in the Superfund legislation are rooted in its creation. The first law was passed in December 1980, as Congress rushed to complete legislation before President-elect Ronald Reagan, pledged to roll back the regulatory burden on industry, took office.

Mr Reagan's EPA proved unwilling to pursue polluters vigorously and unable, in a period of tight budgets for everything but defence, to spend much of its own money on clean-ups. So in 1986 Congress took fresh aim with the Superfund Amendments and Reauthorisation Act (Sara).

Although Sara took some modest steps to reduce the application of strict, joint and several liability by providing limited incentives for everyone to settle early on a fair distribution of costs, it did not get much closer to determining how clean is clean.

The proposals outlined in February by Ms Browner aim to clarify the issue. They would establish in law national goals, as yet not spelled out, for health protection, and follow these up with regulations to set national levels of permissible contamination for the most common chemicals. They would also provide flexibility by linking the standard for a particular site to its future use. "If the community decides that a contaminated site is going to be used for an industrial plant, we might not need to clean it up to the same level as we would for a school," Ms Browner said.

The administration bill would not reverse strict, joint and several liability, but it would specifically exempt those responsible for very small amounts of waste; it would seek to reduce litigation through a voluntary process under which an independent expert would decide on a fair allocation of costs to polluters who agreed to take part.

The Clinton administration had originally proposed a new fund financed by a levy on insurers starting at $500m a year to help settle insurance claims on waste dumped before 1986, when Sara was passed. Insurance and chemical companies, however, have agreed a somewhat different arrangement that has won government approval, if not yet formal endorsement. It differs from the administration proposal in the degree of acceptance a clean-up plan must have before the fund could start to pay out.

With no dispute that Superfund badly needs reform, the process has so far been different in spirit from previous attempts to legislate on toxic waste clean-ups. The debate is not overshadowed by congressional distrust of the administration, and the administration has sought out everyone involved in an attempt to build consensus – though it has not yet achieved unanimity.

Ms Browner's proposals draw heavily on similar reports produced by an EPA working party with representatives from the public and private sectors. An independent National Commission on Superfund, bringing together industrialists, insurers, environmentalists, state and local governments and community groups, worked towards very similar conclusions.

That may be the lesson of Superfund's superfailures: the secret of dealing with toxic wastes lies less in detailed contamination remedies or precise cost allocation formulae than in the process by which a nation reaches agreement on the balance between economic and environmental values.

Bronwen Maddox on UK government attempts to formulate a policy on contaminated land

Haunted by the past

A host of golden daffodils hardly seems a source of serious pollution. But the UK's *National Rivers Authority*, the river quality watchdog, reported last month that highly toxic insecticides had seeped from a Cornish daffodil farm into local streams.

That was just one example of the threat posed by contaminated land revealed in the NRA's survey, which also reported that in the Severn-Trent region of central England alone, 186 sites were thought to be polluting water. Just over half of those cases were of industrial contamination, and the rest of leaking rubbish dumps.

Many similar instances have been cited in the responses – due in yesterday – to the government's consultation paper on contaminated land, *Paying for our past*. The paper, published in March after the government scrapped proposals for a register of contaminated land, calls for comments on the size of the problem and on who should foot the bill. Ministers say they are determined that the chosen solution should avoid the problems which have bedevilled Superfund.

So far the full scale of the problem has not been known, as there have been no systematic surveys, just compilations of incidents such as the NRA report. Friends of the Earth, the pressure group, has suggested that there could be 100,000 problem sites in England, concentrated in the former industrial heartland of the Midlands. The Confederation of British Industry has also estimated that 200,000 hectares could be contaminated by industrial use, and that cleaning it up could cost £20bn.

Not all that pollution may need tackling urgently. Mr Andrew Lees, campaigns director of Friends of the Earth, says: "If the pollution is fixed in the soil and is not moving, then it is possible that it poses no problem. But if it is contaminating water supplies, for example, then clearly it does."

However, even if some contaminated sites do not need treatment, the government is anxious to devise a clean-up policy because it fears that uncertainty about potential liabilities will hinder development of former industrial regions. Many of these areas suffer from high unemployment, and the government is keen to encourage investment. It is also concerned to ease pressure for construction on greenfield sites in the south.

Lawyers and bankers confirm the government's fears that uncertainty about liabilities is making buying and selling property difficult in some regions. Ms Clare Deanesly of Gouldens, the solicitors, says that a House of Lords ruling in December – the much-publicised Cambridge Water case – "only answered some of lawyers' worries".

In that case, the Lords ruled that *Eastern Counties Leather*, a leather treatment company, could not be *held responsible for pollution* caused years ago which had contaminated boreholes, because the company could not reasonably have foreseen the damage. In doing so, the Lords rejected the application of strict liability along Superfund lines – that is, polluters are liable regardless of whether they foresaw the damage or took steps to alleviate it.

However the case left open the question of whether adequate rules to determine who should pay could evolve *through the courts by the* application of common law, or whether they need to be defined by new legislation.

The government's paper ducks that question. Its only clear recommendation on the question of who should pay is that banks should, in some circumstances, be held liable for cleaning up pollution caused by companies to which they have made loans.

This proposal has attracted fierce criticism: the Royal Institution of Chartered Surveyors has told the *government* that "*putting* unreasonable liability" on the financial *sector could "encourage [it] to* withdraw from environmentally *vulnerable markets". In other* words, banks would lend money only for the development of clean land.

The paper, however, points the way forward on some other problems, according to lawyers, developers, banks and insurers. They have particularly welcomed the proposal that land need not be cleaned up to a pristine state, only to the level necessary for its intended use. The proposal – which has been attacked by environmen*talists such as Friends of the Earth* – is an attempt to avoid some of *the huge clean-up bills* which have arisen under Superfund.

But that does not compensate, according to the paper's critics, for the paper's failure to address the central question of who should foot the bill for past pollution. "The courts passed the buck to parliament on the Cambridge Water case, and *Paying for our past* passed it back again," says Ms Deanesly.

Because that central question remains untackled, many respondents have called for the government to pay for cleaning up con*tamination*, possibly by setting up a fund through levies on industry.

Ms Deanesly says: "My *personal* view is that we have all benefited *from the industrial revolution* – *it* produced economic benefits. To the *extent that it has produced disad*vantages, those should be funded from the public purse."

In spite of the problems the US has had in operating such a fund, the government is likely to find that many of the respondents to its consultation paper have echoed those views.

OBSERVER

Caracas to take the job?

■ Antonio Casas González could hardly wish for more testing circumstances in which to prove his mettle. The new president of the central bank of Venezuela flies in from London amid a full-blown bolivar crisis, to step into the shoes of *the immensely* respected Ruth de Krivoy.

The latter's resignation, after a row over the central monetary authority's independence, unsettled international investors – who are far from mollified about what they *fear is a political appointee in her* place.

A sociable type who was well-liked during his four-year sojourn as UK boss of the national oil company, PDVSA, Casas is also close to President Rafael Caldera.

A couple of *months* ago, *friends* had expected him to return to Caracas with a shot at the top job at PDVSA, or perhaps the oil portfolio in the new cabinet, but those positions went elsewhere.

Casas is of course an experienced and *well-travelled man. In addition* to his stint as head of the government's economic planning office during Caldera's first administration in early 1970s, he also sat on the board of the central bank for three years between 1972 and 1975.

He had held diplomatic posts in Washington and worked at the Inter-American Development Bank *before moving to PDVSA, where* he rose to the position of chief *financial officer*.

But while the Venezuelan economy is in far too much trouble for anyone to worry about the academic niceties of central bank independence, Casas will have to prove he is more than a Caldera stooge before any degree of international confidence returns.

Savouring success

■ Is there no keeping that Peter de Savary down? Hot on the heels of the collapse of his Placeton *property-to-oil company*, he now has plans for a £100m network of "autoparks" – sites where people can test-drive and buy cars – which, he claims, will be great places for a family day out.

So where is he going to get the money *from*, *seeing that Standard* Chartered has suffered a loss of up to £50m on the Placeton collapse? Well, plenty of other banks have been on the phone in the past couple of days, would you believe, perfectly ready to talk *business*. "I have banks who are very fond of me," he points out.

Indeed, plans for "four or five" autoparks around Britain are already well advanced. De Savary says six big car companies – anonymous so far – are keen to support the idea. The first sites could be operational in 1996, with London's Docklands and Southampton being among the contenders. Each would be about 50 acres and include Disney-style amusements for children plus *restaurants and bars operating* 18 hours a day.

Sounds absolutely heavenly, just what the bankers ordered. Wait a minute; has he checked out Eurodisney recently . . ?

'I'm right behind anyone who's right behind *John Major*'

Master builder

■ Lloyds Bank's £1.8bn bid for Cheltenham & Gloucester may have caught analysts on the hop, but can it really have come as such a surprise to staff at the Building Societies Association?

Back in December, its director-general Adrian Coles presciently chose Brian Pitman to deliver his "distinctive view of *current and future developments* in the banking world" to the BSA's conference later this month.

Sadly, Coles's crystal ball contains a minor flaw. Lloyds Bank's boss will be speaking shortly before the legality of the deal is tested in the High Court. Had the conference been scheduled *for just a little later in May*, Pitman might have been able to say rather more.

Nom de plume

■ Citroën's UK subsidiary is having a spot of bother with the parent company's brainwaves on the vehicle naming front. With scant regard for prime minister Edouard Balladur's campaign to defend the purity of the French language, *Citroën is calling its* latest two-and-a-half tonne van the Citroën Jumper. Company executives mutter obliquely about 'Jolly Jumper' being the name of the horse belonging to 'Lucky Luke', some cartoon figure.

But the company's UK management is less than taken *with calling a vehicle after a woolly* garment that may be comfortable but tends to be familiar, old, tired . . . So it has plumped for Relay instead.

That still leaves the new multi-purpose vehicle – a competitor for Renault's Espace – that the big bosses are christening the Citroën Evasion. The French connotations may be *of escape and adventure*, but Pierre Boisjoly, managing director of *Citroën UK, reckons the Brits will* think of tax evasion.

Anyone care to help him out?

Chopped sueys

■ Naturally, the syndicate officials who slaved day and night on what was to be *India's biggest ever equity offering* were more than a little nonplussed when VSNL, the Indian international telecoms company, decided to postpone its $1bn international equity *offering* at the eleventh hour. How to commemorate their failure to pocket some whacking fees? A slap-up meal seemed the perfect idea.

Understandably, the idea of *dining out at one of London's* superb Indian restaurants made them feel a little queasy. So they all went out to Memories of China.

Slick

■ More Senile Prats. That would be the upshot of a union between oil companies Enterprise and Lasmo, according to a reader who enjoys shuffling letters of the alphabet around.

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Departure aimed at mending ties with government

Founder of Hyundai to retire from management

By John Burton in Seoul

Mr Chung Ju-yung, the founder and honorary chairman of the Hyundai conglomerate, said yesterday that he would retire from the management of South Korea's largest business group.

His departure is meant to ease tension between Hyundai and the government, which has discriminated against the group since Mr Chung unsuccessfully stood against President Kim Young-sam in the 1992 election.

Since the presidential election, Hyundai has not received low-interest industrial loans from the state-run Korea Development Bank and has been restricted in raising capital abroad. Three of its main subsidiaries have also been denied listings on the Seoul bourse.

The retirement of 78-year old Mr Chung would end a business career that began with the founding of Hyundai in 1947 as a small motor service company. During the next three decades, he developed Hyundai into a symbol of Korean industrial might with 48 subsidiaries and total assets of Won31,700bn ($39.2bn).

Share prices for Hyundai companies rose in the expectation that the government would resume financing to the group.

Some government officials have urged that the restrictions against Hyundai be removed for the sake of the national economy because the group is the country's largest producer of cars and ships and is the owner of the biggest construction company.

But aides to Mr Kim expressed scepticism that Mr Chung would actually withdraw from Hyundai's management and retire to live on his remote farming estate. They noted that he will remain as honorary chairman and continue to provide advice to his brother, Mr Chung Se-yung, the group chairman.

Mr Chung described the honorary chairmanship as a "ceremonial" position, but his status as group founder almost certainly guarantees that he could continue to guide the conglomerate from behind the scenes.

Some analysts believe that Mr Chung's retirement announcement is part of an attempt to persuade the government to overturn his conviction for illegal campaign funding during the 1992 election.

Mr Chung received a three-year suspended jail sentence last autumn for embezzling corporate funds to support his failed presidential bid. He is now awaiting an appeal against the decision.

He severed ties with his political group, the United People's party, last year and vowed to stay out of politics to appease the government.

IBM to set up data network across China

By Louise Kehoe in San Francisco

International Business Machines has been chosen by China's ministry of electronics industry to lead a vast project to link about 500 cities to a national "information highway" data network.

Under the terms of a memorandum of understanding signed by Mr Lou Gerstner, IBM chairman and chief executive, and Mr Zou Jiahua, a Chinese vice-premier, IBM will head the "Golden Bridge" project, one of three initiatives designed to modernise China's data communications and computing infrastructure.

The project will involve designing and building regional networks in cities across China, along with a "backbone" network linking the regional systems. The effort will be led by a new joint venture, based in Beijing, between IBM China and Ji Tong Communications, a company affiliated to the Chinese ministry of electronics industry.

"This is China's version of the information highway," said Mr Ned Lautenbach, head of IBM's international operations. "The Chinese government has set very ambitious goals and we are thrilled to have been selected to work with them."

IBM has also been chosen as the primary consultant on two other "golden projects": Golden Card will establish facilities for the credit and debit cards throughout China, and Golden Customs will create computerised record-keeping and tracking systems for China's exports and imports.

"IBM is a famous computer company and has a long history of working with us," said Mr Zou. "Its technology and experience have contributed greatly to the development of the information technology industry in China."

As part of its expansion in China, IBM plans to establish a software development centre in Shanghai to develop programs for use in China and for export. Three networking technology centres will be opened in Beijing, Shanghai and Guangzhou providing consulting services to Chinese customers, linking computers to networks.

IBM's presence in China dates back to 1935. The company left China when the communist regime took over and came back in 1982 as an offshore business. In September 1992 IBM China became a wholly owned foreign enterprise, authorised to trade in local currency and to hire Chinese employees.

"In the last 18 months or so we have been aggressively growing our resources, our commitment and our business in China," said Mr Lautenbach. These moves reflect the Clinton administration's liberalisation of export controls on high-technology goods sold to China.

Jericho prepares for self-rule

Continued from Page 1

Isaac Shawa, a shopkeeper on the town's small grass square. "I believe from that day it will be the beginning of our independence. We will be able to start to count from zero."

But although there are hopes in Jericho, there are also deep fears and worries about the future. Many Jerichoans remember last December 13 when they prepared to celebrate the beginning of Israeli withdrawal and nothing happened. The Israeli army exacerbated suspicion yesterday when it closed the town to visitors.

One businessman said he feared Israel would seal off Jericho from the rest of the West Bank and from neighbouring Jordan, leaving "us sitting here in jail".

More worrying is the response of young extremists of the Hamas Islamic Resistance movement. "When Arafat comes here we will put a bullet between his eyes," said Khalil, a garlic seller.

Ominous signs for future Arab-Jewish relations were also on show on the outskirts of Jericho, where Jewish settlers in the Jordan valley protesting against the agreement blocked a road with burning tyres and clashed with police. Some settlers said they would not obey any orders from incoming Palestinian police.

The army stopped Jewish settlers travelling through Jericho and sent them around the town on a military by-pass road. For Arab and Jew at the military checkpoint yesterday it seemed that the agreement was heralding a divorce rather than co-existence.

Kohl joins efforts to push through EU enlargement

By David Gardner in Strasbourg

Chancellor Helmut Kohl of Germany yesterday joined a last-minute push to ensure the European Parliament today ratifies the enlargement treaty to bring Austria, Sweden, Finland and Norway into the European Union.

Ratification requires approval by at least 260 of the 518 MEPs, and party managers were yesterday making frenetic efforts to ensure enough Yes votes. According to a parliament official, special travel arrangements were being made to make sure that several MEPs not yet in Strasbourg will arrive in time for the vote.

In letters to leaders of the main political groups in the Strasbourg assembly, Mr Kohl promised to ensure that the parliament would get the increased role it is demanding in a working party whose work will form the basis of the 1996 constitutional review of power-sharing in the EU and the Maastricht treaty. Mr Ruud Lubbers, the Dutch prime minister, and Mr Jean-Luc Dehaene, the Belgian premier, have made similar pledges to back parliament's demands.

Germany takes over the EU presidency at the end of next month, when the working party should be set up to prepare the 1996 inter-governmental conference. Mr Kohl reminded Euro-MP leaders that he had long argued for a strengthening of the European Parliament as the basis for a more democratic and federal Union.

The parliament has been making its mandatory ratification of the EU's biggest expansion conditional on an enhancement of its own role. In March, Strasbourg made clear it would not ratify if the UK got its way in the voting rights row, making it easier for a minority of member states in the larger Union to block decisions.

Germany took the lead in ensuring the UK received only cosmetic concessions, but even these have provoked many MEPs into fighting for postponement of the enlargement until the institutional balance in the EU is sorted out.

At least 100 MEPs are today expected to press for a postponement, though this motion will almost certainly be defeated. But the question is whether enough of the dissidents will then vote Yes on entry for the four newcomers.

Mr Kohl's intervention will bolster arguments that the failure of the enlargement vote would create a crisis that would hinder reform. But the British Conservative government faces further discomfort from its Euro-phobe faction if it backs Mr Kohl's pledge to support a body which is markedly Socialist and federalist.

Polls suggest that after next month's Euro-elections, the Strasbourg parliament will be even more dominated by socialists than it is now. Officials in Strasbourg point out, moreover, that additional seats for Germany to reflect unification mean that federalist Germans will occupy many of the key positions in the new assembly.

THE LEX COLUMN

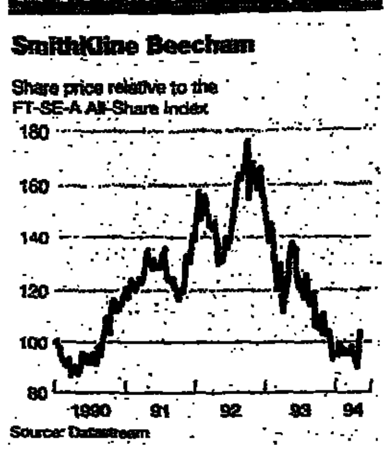
SmithKline's prescription

When Merck bought Medco for $6bn in July last year most other pharmaceuticals companies were unconvinced of the commercial logic and flabbergasted by the price. It is a measure of how far the market has come in the last 10 months that SmithKline Beecham's decision to follow into vertical integration seems to have immediately convinced on both counts. True, SB seems to be paying a shade less than Merck for its US pharmacy benefit manager. A handy tax break means that earnings will barely suffer this year and should benefit thereafter. Even so, paying a multiple of around 50 times last year's earnings demands a compelling case.

At its crudest level, buying Diversified Pharmaceutical Services allows SB to recoup some of the margin now being lost to its new breed of customers. DPS's earnings depend on its ability to negotiate aggressive deals with drugs companies. There is also the promise of rapidly rising profits as benefit managers cover more of the US population. It remains to be seen whether DPS's customers will be happy about its loss of independence. The relationship with SB will have to be played carefully. Still, the early evidence from Medco is that large health-care buyers are reluctant to take their business elsewhere.

The wider benefits, including access to DPS's clinical data, will only become apparent over time. The relative performance of SB's drugs will be the critical test. As Roche's acquisition of rival drug company Syntex makes clear, there is more than one way to tackle the margin squeeze now under way. With two of the big three US benefit managers in the hands of drugs companies, though, others in the sector will find that opportunities for vertical integration are few and far between.

FT-SE Index: 3100.0 (-25.3)



Source: Datastream

UK economy

The strong growth in M0 money supply last month is about the best indication yet that economic recovery has survived the immediate impact of the chancellor's tax increases. But the jury must still be out on whether that positive response will continue, especially now that consumers have banked their April pay cheques. Anecdotal evidence suggests confidence is weak. Yet spending may well turn out not to be too badly affected. Employment and wages are growing, and higher turnover in the housing market, underlined by yesterday's mortgage lending figures, should boost demand for consumer durables.

Obviously the authorities cannot wish the recovery to falter, but such a high rate of narrow money growth must also leave them uneasy. Year-on-year growth of 6.2 per cent is way above the monitoring ceiling of 4 per cent, and the excuse that individuals are inclined to hold cash because interest rates are so low is wearing thin. Arguably, the original target range for M0 was too tight, but the authorities cannot let the aggregate expand at this kind of level for more than a month or two without risking serious loss of credibility.

Then talk would turn, not to whether there is room for one more rate cut, but rather to the question of how soon rates would have to rise again. It is perhaps unfortunate that news of such vigorous money growth coincided with fresh nervousness over sterling. Its trade-weighted index dropped 0.9 per cent yesterday, partly in the backwash of a weak dollar and partly in response to political worries. There was no inflationary threat when sterling left the ERM because the economy was so weak. Depreciation is more risky now that the output gap is closing and unit labour costs have bottomed out.

Lloyd's

All credit to Lloyd's of London for trying to transform itself from an expensive club into a rational market. The proposed introduction of pre-emption rights for Names, similar to those enjoyed by shareholders in the equity market, is a small step in this direction. Risk-based capital requirements for underwriting syndicates should also bring returns more closely into line with risks. Lloyd's might then stand a better chance of developing a mix of business capable of generating consistent profits.

Lloyd's will look an odd-ball among financial markets until capital is allocated to syndicates on the basis of price, rather than favours and queueing as at present. That giant leap will probably involve Names exchanging syndicate participations for shares in specialist Lloyd's companies which can be traded. Exactly how that might happen, and what form the new companies might take, was left open by yesterday's report.

In managing any such transition, though, the interests of Names will have to be carefully protected. Having relied on private individuals to ride out the recent underwriting storm, Lloyd's must give them a fair chance to recoup their losses under the structure which is now emerging.

Crest

It is obviously embarrassing that the London stock market is unlikely to meet the original deadline of next January for introducing five-day rolling settlement. Five-day settlement has become the international standard, while some rival markets are moving towards a three-day system. Delay makes London look unprofessional, reinforcing the impression created by last year's Taurus fiasco.

Nevertheless, delay is better than disaster. The move to five-day settlement is due to occur under the old paper-based system. Fast paper settlement may be feasible but there is clearly a risk that back offices and registrars could be swamped by paper mountains. It certainly makes sense to see how 10-day settlement, due to start in July, beds down before progressing. There may even be a case for postponing fast settlement until Crest, the electronic system that fills the role that Taurus should have filled, is up and running.

Meanwhile, the stock exchange has been snubbed in its ambition to hold a 30 per cent stake of Crest. Its share will be no higher than that held by at least 17 other financial institutions, if indeed it decides to take part at all. The exchange may yet receive the consolation prize of operating Crest under contract – a possibility held out yesterday by the Bank of England. But, to win the contract, it will have to compete. Success cannot be guaranteed.

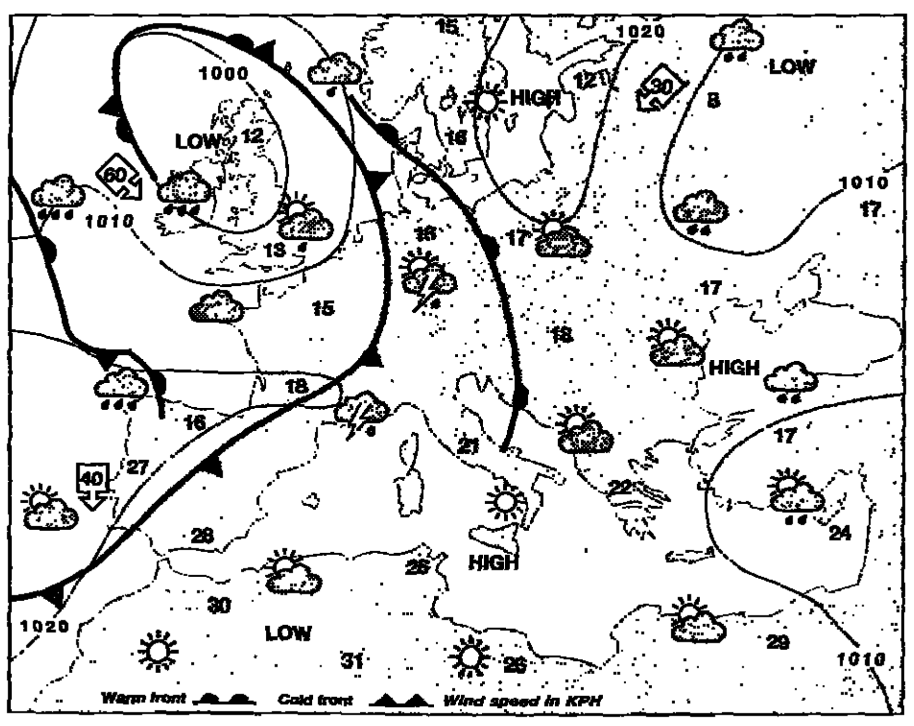
FT WEATHER GUIDE

Europe today

A complex low pressure area west of Scotland will bring showers and rain to the British Isles. A cold front associated with the low will move east over the continent bringing rain and scattered thunder showers to eastern France, Germany and Switzerland. Poland and the Balkans will remain dry and mostly sunny. South-westerly winds will draw cool and unstable air towards the Benelux and north-west France resulting in mainly cloudy skies and a few showers. Temperatures will be much lower than yesterday. The Mediterranean will have a lot of sun and comfortable temperatures. High pressure over the Baltic Sea will keep Scandinavia sunny and mainly dry.

Five-day forecast

High pressure over Scandinavia will expand over western Europe during Friday and the weekend bringing sunshine and a gradual warming trend to Scandinavia, the Benelux, France and, later, the British Isles. A disturbance over the Atlantic will produce thunder showers in Spain and Portugal over the weekend. A series of depressions will cause cool and unsettled conditions to develop in eastern and south-eastern Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	39
Accra	shower	30
Algiers	sun	27
Amsterdam	shower	16
Athens	fair	22
Atlanta	rain	23
B. Aires	fair	19
B.ham	cloudy	13
Bangkok	fair	37
Barcelona	fair	22
Beijing	fair	21
Belfast	rain	13
Belgrade	sun	21
Berlin	shower	22
Bermuda	shower	25
Bogota	cloudy	17
Bombay	fair	33
Brussels	shower	17
Budapest	sun	19
C.hagen	fair	16
Cairo	sun	29
Cape Town	sun	21
Caracas	cloudy	26
Cardiff	cloudy	12
Casablanca	sun	23
Chicago	cloudy	20
Cologne	cloudy	18
D' Salaam	shower	30
Dakar	fair	26
Dallas	fair	28
Delhi	sun	39
Dubai	sun	39
Dublin	rain	14
Dubrovnik	sun	22
Edinburgh	rain	12
Faro	sun	24
Frankfurt	cloudy	17
Geneva	rain	14
Gibraltar	sun	26
Glasgow	rain	12
Hamburg	rain	16
Helsinki	sun	13
Hong Kong	fair	28
Honolulu	fair	29
Istanbul	fair	16
Jersey	shower	14
Karachi	fair	36
Kuwait	fair	38
L. Angeles	cloudy	21
Las Palmas	sun	23
Lima	fair	23
Lisbon	sun	22
London	cloudy	14
Lux.bourg	shower	14
Lyon	rain	14
Madeira	sun	20
Madrid	sun	27
Majorca	sun	25
Malta	sun	23
Manchester	rain	13
Manila	cloudy	34
Melbourne	cloudy	16
Mexico City	fair	24
Miami	fair	32
Milan	sun	25
Montreal	fair	18
Moscow	rain	9
Munich	thund	18
Nairobi	shower	25
Naples	sun	22
Nassau	fair	31
New York	fair	15
Nice	thund	20
Nicosia	shower	23
Oslo	fair	17
Paris	cloudy	18
Perth	fair	26
Prague	thund	22
Rangoon	cloudy	34
Reykjavik	shower	9
Rio	fair	26
Rome	sun	21
S. Frsco	cloudy	17
Seoul	rain	19
Singapore	thund	31
Stockholm	sun	15
Strasbourg	shower	15
Sydney	cloudy	24
Tangier	sun	22
Tel Aviv	fair	24
Tokyo	rain	22
Toronto	cloudy	16
Vancouver	fair	16
Venice	fair	23
Vienna	fair	21
Warsaw	fair	17
Washington	rain	14
Wellington	cloudy	15
Winnipeg	fair	14
Zurich	shower	16

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 4 1994

IN BRIEF

RWE expects to increase dividend

RWE, the industrial conglomerate built around Germany's largest electricity generator, will likely pay a higher dividend this year, in spite of heavier losses in its waste disposal division. Mr Friedhelm Gieske, the chief executive, forecast a profit for the year ending June comparable to last year's DM881m ($512m) – but promised a higher dividend on the basis of more favourable tax allowances. Page 20

Sanofi eyes pharmaceuticals business
Sanofi, the French pharmaceuticals group, has expressed interest in acquiring a substantial part of Eastman Kodak's pharmaceuticals businesses, either on its own or with partners, following the US group's announcement that it would sell its healthcare activities. Page 21

Freeport-McMoRan to split businesses
Freeport-McMoRan, the New Orleans-based natural resources company, will split its two principal businesses, copper and gold mining and agricultural minerals, into two independent financial entities which will be distributed in a complicated transaction to existing shareholders. Page 21

S&P warns over problem assets
Standard & Poor's, the international credit rating agency, has said asset-quality problems at Japanese banks, which face increasing bad-loan levels, will take several years to resolve. Page 22

Brown & Jackson in rescue talks
Pepkor, the South African retailer, is still holding talks with Brown & Jackson, the troubled discount retailer which last month announced a £8m rescue deal with the Weisfelds, the millionaire couple who created the What Everyone Wants chain. Page 25

Enterprise bid worries shareholders
Shareholders in rival explorers Enterprise Oil and Lasmo yesterday expressed unease over the terms and structure of the hostile £1.5bn offer. Shareholders' main concerns appear to be the valuation placed on Lasmo (which excludes a cash alternative) the unusual equity structure and the timing of the bid. Page 25

Reds aim for off-field success
When the UK's Manchester United takes to the field for its last home game of the season on May 8, all minds will be concentrated on football, its core business. But for the directors watching that afternoon's clash with Coventry City, the club is a multi-layered business – non-footballing activities have helped lift first-half profits by 85 per cent to £7.8m ($11m) Page 26

Barriers around Chinese mines
China's mining sector has lagged well behind others, notably oil and gas, in efforts to attract foreign involvement. However, mining executives say China is making definite progress in clearing away barriers to foreign investment. Page 28

UK building society merger expected
The UK building societies sector looks set to face a further shake-up as Northern Rock, the UK's eleventh largest building society, is today expected to announce plans to merge with another society.

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	847	+	7
Holzmann	910	+	20
Porsche	686	+	8
Falls			
DLW	672	-	28
Henkel	666	-	12
Kaufhof	538	-	10
NEW YORK ($)			
Rises			
Kodak	46⅝	+	2¾
Utd Healthcare	47⅛	+	3
Value Health	44⅝	+	3¼
Falls			
Lotus Dev	63¾	-	2¼
Microsoft	83¾	-	1⅝
Wellfleet	74⅛	-	3¼
PARIS (FFr)			
Rises			
Essilor	785	+	30
Falls			
BIC	1315	-	23
Cred Lyon	527	-	25
EBF	896	-	24
Elex	3260	-	100
Valeo	1380	-	17

New York prices at 12.30. Tokyo closed.

LONDON (Pence)			
Rises			
Acorn Computer	91	+	5
Arcon Intl	53	+	3
Gerrard & Nat	465	+	17
INVESCO	169	+	6
London Intl	112	+	8
Pittencrieff	350	+	14
Shandwick	53	+	3
SmKline Bchm A	415	+	25½
Smith New Court	375	+	12
Wellcome	547	+	23
Falls			
AMEC	122	-	8
Forward Grp	272	-	11
GBE Intl	68	-	6
HSBC (75p shs)	679	-	27
Oxford Molecular	73	-	8
Powerscreen	227	-	11
Reuters	507	-	24½
Rolls-Royce	186	-	7½
Standard Chartd	959	-	38
Thames Water	486	-	11

US group withdraws from healthcare as UK pharmaceutical company buys distributor

Kodak returns to core with drug sale

By Patrick Harverson in New York

Eastman Kodak, the struggling US photographic products group, plans to sell its pharmaceutical and consumer health-care divisions to concentrate on its core imaging business.

The restructuring plan is aimed at lightening the group's $7bn debt and bolstering its balance sheet as well raising funds to develop the core photographic imaging business. It is the latest attempt by Mr George Fisher, chairman, to restore the group's flagging fortunes.

Mr Fisher took the helm at Kodak last December after his predecessor, Mr Kay Whitmore, resigned amid shareholder dissatisfaction with the group's performance.

The three divisions which Kodak plans to sell – the drugs and consumer health products unit Sterling Winthrop, the personal care and household products business, L&F Products, and the Clinical Diagnostics division – accounted for about $3.7bn of the group's $16.4bn revenues last year.

Mr Fisher would not comment on whether the units would be sold or spun off in a public offering. However, he said the group's partner in a worldwide drug sales venture, the French company Elf Sanofi, would be given the right of first refusal to buy parts of Sterling, which Kodak bought in 1988 for $5.1bn. Yesterday Bayer, the German pharmaceuticals group, said it was interested in purchasing Sterling.

Kodak said it was retaining its Health Sciences division because the unit will play a pivotal role in its imaging strategy. Wall Street, which has been highly critical of Kodak's performance, welcomed the restructuring. The group's shares climbed $2¾ to $46⅝.

Standard & Poor's, the credit rating agency, said it would consider upgrading Kodak's debt rating in light of the divestment plan, which it believed could ultimately lead to the elimination of much of the group's debt.

The plan continues Kodak's strategy of focusing on its core imaging business. Four months ago Kodak spun off its chemicals division, Eastman Chemical, and last month it announced the formation of a new unit to spearhead its involvement in the market for electronic imaging.

New image, Page 21; Global sickness, Page 16

An expensive bargain for SmithKline

By David Wighton

Mr Jan Leschly, chief executive officer of SmithKline Beecham, recently described Merck's purchase of drug distributor Medco last year as "strategically ... a stroke of genius". But he questioned the $6.7bn price tag.

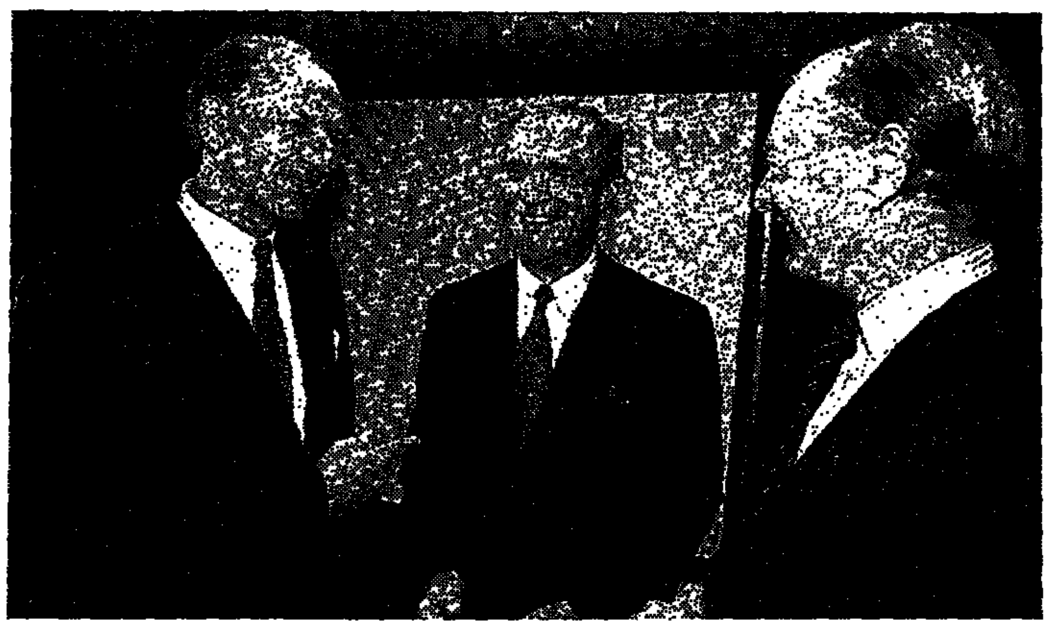
So it should have come as little surprise that SmithKline wants to buy Medco's smaller rival Diversified Pharmaceuticals – or that Mr Leschly argues at only $2.3bn (£1.5bn) it is a much better deal. Not that it looks a bargain by normal standards. Diversified made an operating profit of just $39.9m last year.

To be fair, Diversified is growing rapidly with profits rising by over 60 per cent last year on more than trebled sales of $142.1m.

But Mr Jean-Pierre Garnier, chairman of SB Pharmaceuticals, says its importance for the group cannot be measured in traditional terms. He simply warns that pharmaceuticals companies without similar deals "will probably not survive in the increasingly competitive environment".

Mr Leschly sees the move as a vital part of his efforts to move the group from being a "manufacturer selling pills" to a supplier of "total pharmaceutical care". This transformation is deemed necessary because healthcare in the US is moving from one controlled by doctors to one controlled by the payer – a change which has been associated with the creation of two new groups of businesses, health management organisations (HMOs) and pharmaceutical benefit management companies.

Both act as intermediaries buying care and drugs on behalf of their customers, which in the case of pharmaceutical benefit management companies are usually HMOs. Mr Leschly says SmithKline's deal is unique in that it involves not only the purchase of a pharmaceutical benefit management company, Diversified, but also close links with its parent United HealthCare, which owns health management organisations with 1.6m members. "That triangle is essential for the strategic importance of the deal."



Trevor Humphries
Jean-Pierre Garnier (left) SB chairman, with Jan Leschly and Hugh Collum, chief financial officer (right)

SmithKline and United have agreed to a minimum six-year alliance, through which SmithKline will have exclusive rights to data from those 1.6m members. This data will help SmithKline to greater understanding of the cost/benefits of drug use.

United will continue to use Diversified for its owned managed care operations.

Mr Leschly says the acquisition will "enhance" the "presence" of SmithKline's products in the managed care sector, yet stresses it will not attempt to force its products through Diversified. "If we forced them to do certain things it would not be competitive and that would not be in our interests. We want them to continue their fruitful relationship with other manufacturers."

He argues SmithKline will bring benefits to Diversified, including access to its salesforce and specialist clinical knowledge. As for the price, Mr Leschly says SmithKline is paying $210 for each of the 11m people for whom Diversified directly manages pharmaceutical benefits. On the same basis he says Merck paid more than $325 a head for Medco.

Lex, Page 18

India postpones VSNL $1bn equity issue

By Stefan Wagstyl in New Delhi and Sara Webb in London

The Indian government yesterday postponed a planned $1bn international equity issue by Videsh Sanchar Nigam (VSNL), the state-controlled international telecommunications monopoly.

Fund managers balked at the high price set by the government in consultation with the company and the global co-ordinators, Salomon Brothers of the US and Britain's Kleinwort Benson.

The postponement is India's biggest setback in the international capital markets since Indian issuers first raised funds in late 1992, after the government's liberalisation programme permitted increased foreign trade and investment. The decision could harm the prospects for future Indian issues and will do little to help confidence in investing in emerging markets, which have mostly fallen this year after rapid gains in 1993.

"This is really bad news for India," said Mr Tony Singh, a stockbroker at Cresvale, a London-based investment company. "There were so many other Euroissues from India which were hoping to ride on the back of VSNL's success."

When VSNL, which is 85 per cent government-owned, first considered the international equity offering late last year, it considered raising $500m, which would still have been the biggest-ever Indian international offering. But the growing appetite of foreign fund managers for Indian stocks persuaded the company and the government to increase the issue size to $1bn. With the VSNL price rising on the BSE from Rs650 in early November to a peak of Rs1,700 in January and February, the issuers fixed a minimum issue price of Rs1,400.

But by the time the price was approved at a cabinet meeting in early April, international markets had soured and were in a difficult state when the company started its roadshow in Hong Kong in mid-April. Fund managers there, and later in London and New York said with shares trading in Bombay around Rs1,300, Rs1,400 was too high.

There were talks over the weekend on proposals to cut the price to between Rs1,100 and Rs1,200, to raise about $700m. The VSNL board was not against cutting the price, but a change required cabinet approval.

Background, Page 22; World stock markets, Back Page

Capital gains put Stora back in black

By Christopher Brown-Humes in Stockholm

Stora, Europe's biggest pulp and paper group, made a strong return to profit in the first quarter after benefiting from increased demand, cost-cutting and big capital gains.

The group swung to a SKr1.07bn ($135m) profit after financial items from a SKr78m loss a year earlier. Excluding one-off items, profit amounted to SKr430m compared with a SKr93m deficit in 1992.

Mr Lars-Ake Helgesson, Stora president, said the market was recovering after three years of over-capacity and falling prices. He was encouraged by evidence of faster-than-expected economic recovery in Europe, the company's main market.

Group volume was 2.7 per cent higher than a year ago at 1.66m tonnes, but prices were generally lower than in 1993. "Increases in pulp prices have brought price rises in most paper and board product areas, but with only a limited affect on earnings to date," said Mr Helgesson.

Disposals meant group sales fell to SKr11.46bn from SKr12.59bn. For comparable units, sales were SKr425m higher reflecting the volume growth and currency movements.

Operating profit improved strongly to SKr1.39bn from SKr358m. A restructuring programme which has lowered costs by SKr4.5bn during the industry recession was one reason for the upturn, but the main impact came from SKr641m in capital gains. There was a SKr800m gain from the SKr3.46bn sale of the group's Tarkett flooring unit, but this was partly offset by a SKr200m provision for the possible write-down of a Canadian pulp plant.

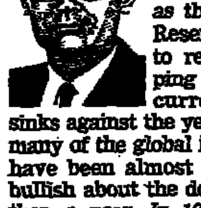
The company said all units improved their operating performance. Stora Feldmühle lifted profits to SKr137m from SKr47m, while Stora Billerud saw profits rise to SKr275m from SKr191m.

The only product area to record a worse performance was technical office papers where losses deepened to SKr17m from SKr9m. Profits from printing papers climbed to SKr179m from SKr118m and from board and packaging paper to SKr303m from SKr228m. Pulp made a modest SKr10m profit, turning around a SKr38m loss.

Financial expenses fell to SKr322m from SKr436m. The improvement reflected lower interest rates and reduced debt.

Barry Riley

Long hot summer to test the nerve of dollar bulls



Dollar disappointment is on the edge of turning into a debacle as the US Federal Reserve is forced to resort to propping up the ailing currency as it sinks against the yen. At risk are many of the global investors who have been almost unanimously bullish about the dollar for more than a year. In 1993 the dollar went down against the yen but at least it went up against the D-Mark. This year it has been soft against most other currencies.

What has nobbled the dead cert? After all, with the US economy expanding strongly while most of its G7 trading partners remained in recession, the argument has been that a transformation in interest rate differentials would push up dollar exchange rates. In practice the fall in continental European interest rates has been rather slow, but whereas at the end of 1992 D-Mark three-month rates were more than 500 basis points higher than the dollar equivalent, today the differential is only just over 100 points. Pretty soon the gap could reverse.

Has the negative response been irrational? There do, of course, have to be reasons but they vary from time to time. Besides short-term interest rate differentials, currency exchange rates may be driven by long-term investment flows and by political uncertainty. There is also the basic economic factor of trade imbalances, which this year may have become important again.

There are some big negatives here. The US current account deficit may be heading for $140bn in 1994, pushed up by domestic demand, and generating unwanted dollars overseas. Moreover, far from supporting their local neighbourhood Treasury, US pension funds and mutual fund investors have discovered the virtues of global investment, and poured almost $130bn into foreign securities in 1993.

Offsetting that was $110bn of net purchases of US securities by foreigners, but the point is that whereas in the 1980s the big investments by foreigners (often, at that stage, Japanese financial institutions) were vastly greater than the US outflows, now there is a rough balance.

Anybody buying rising yields is also buying immediate capital losses

The underlying US current account deficit is therefore having to be financed by attracting hot money which is more sensitive to the prospects for short-term capital gains through exchange rate volatility than it is to small-scale interest rate differentials.

A low rate of domestic saving in the US is forcing the country to draw on savings overseas, especially when the economic upturn is leading to a rise in corporate investment. The mirror image is depressed in Japan, running a current account surplus of about $130bn, but apparently no longer willing to buy dollar securities as it was in the 1980s.

The Americans portray problems with Japan in terms of interference with freedom of trade, but different propensities to save are at the heart of the problem. The immediate difficulty is that Japanese life companies are no longer willing to take risks with the dollar/yen rate which has cost them so much in falling from over 200 10 years ago to scarcely above 100 today.

Seen this way, the challenge for Americans is to attract savings domestically and internationally. Last year the banks and the hedge funds were still healthy sources of support for US Treasuries but that game is now over. The simple solution is a sharp rise in long-term dollar interest rates, which has happened, with the 150 basis point rise in the benchmark long bond yield since last October's trough. Apart from attracting foreign money these higher returns will also, eventually, choke off the portfolio outflows.

But anybody buying into rising yields is also buying into immediate capital losses. So there is the potential for a hiatus as potential buyers of dollar securities wait for the bond market to settle down. While long-term portfolio investors hold off, the dollar is likely to wilt; and Japanese institutions certainly have reason to bide their time until the yen is not just overpriced but ridiculously priced.

At least we learned last week there are limits to the readiness of Americans to encourage devaluation of their currency. But we could be in for an unstable and unpredictable summer as the nerves of the dollar bulls are tested.

DSM net profit lifted to Fl 83m by jump in sales

By Ronald van de Krol in Amsterdam

A jump in sales allowed DSM, the Dutch chemicals group, to report a near 14-fold increase in net profit in the first quarter compared with the same, *severely depressed period of* 1993.

Net profit rose to Fl 83m ($43m) from Fl 6m a year earlier, on turnover up 5 per cent at Fl 2.2bn. *Sales by volume* were up a strong 9 per cent, reflecting greater demand for plastics and caprolactum, a raw material used to make nylon.

DSM said part of the sales rise may have been due to non-recurring factors, such as extra stockpiling by industrial customers and by a drop in exports from competitors in central and eastern Europe.

Another factor behind the profit *rise was a further* decrease in fixed costs. The workforce stood at 19,774 people at the end of the first quarter, an 11 per cent decline from the same period of 1993.

The economy in Europe, DSM's main market, showed signs of a hesitant recovery in the first quarter, with some growth reported by European car makers, an important customer *group for the company.*

The company said it expected business in the current quarter to be similar to the first three months of the year. But DSM cautioned that results would be influenced by maintenance shutdowns in the second quarter. It declined to make a forecast for full-year results.

Mr Simon de Bree, chairman, said the results, which were above analysts' predictions, were *encouraging but noted* the recovery was frail, and selling prices were still low.

DSM's shares rallied strongly on the first-quarter results, closing up Fl 4.70, or 3.3 per cent, at Fl 145.00.

● Ballast Nedam, the construction group, said the number of shares in this month's flotation would be 3.7m, with an option to issue up to a further 450,000 *if the issue is over*subscribed, Reuter reports from Amsterdam.

The company confirmed that the share issue represented 37 *per cent of its cumulative pref*erence stock. Ballast expects 1994 net profit of about Fl 90m. It made profits of Fl 84.3m in 1993. The preference shares are *to be listed on the Amsterdam* bourse from the middle of this month.

DnB moves back into the black in first quarter

By Karen Fossli in Oslo

Den norske Bank, Norway's largest bank, moved back into the black with a net profit with NKr686m ($79.2m) for the 1994 first quarter, from a loss of NKr138m a year ago.

The turnround was helped by reduced losses on loans and guarantees and came in spite of lower non-interest income.

Mr Finn Hvistendahl, group managing director, said the improved performance continued *a trend which began last* year. Net interest income rose slightly to NKr1.27bn from NKr1.23bn, helped by "comfortable" margins in the face of strong competition.

However, gross interest income was reduced by NKr1.44bn to NKr2.97bn as interest expenses were cut by NKr1.48bn to NKr1.7bn. Non-interest income fell by NKr296m to NKr662m with *currency and securities gains* falling to NKr65m from NKr120m.

DnB explained that unrealised gains on shares amounted to NKr392m *at end* March and that an increase in interest rates had led to a loss on bonds, partly offset by an increase in value of other financial instruments used to hedge interest rate risk.

Group operating profit, *before losses on loans and* guarantees, fell to NKr780m from NKr1.06bn. Losses on loans and guarantees were cut to NKr180m from NKr1.17bn.

DnB said there had been some strong recoveries, particularly where the improvement in the Norwegian economy had a positive impact on customers' ability to meet payments and on the value of the bank's collateral.

The volume of non-performing loans was NKr8.9bn, a reduction of NKr1.3bn since the end of 1993. DnB said the volume of new non-performing loans registered in the period was moderate while several previous non-performers had been reinstated as performing assets.

"The quality of the bank's loan portfolio was enhanced during the first quarter," said Mr Hvistendahl.

RWE expects to increase dividend

By Quentin Peel in Bonn

RWE, the industrial conglomerate built around Germany's largest electricity generator, *expects to pay a higher* dividend this year, in spite of heavier losses in its waste disposal division.

Mr Friedhelm Gieske, chief executive, forecast a profit for the year ending June, comparable to last year's DM881m ($512m) – but promised a higher dividend on the basis of more favourable tax allowances.

Both the oil and chemicals division, and RWE Energie, the electricity generator, will make bigger contributions to the outcome, with the buoyant *construction division maintaining* its position.

Two US investments – the Consol mining group, hit by a seven-month strike, and NuKEM, its waste disposal operation – are the main loss-makers in the group so far this year, Mr Gieske said.

On the other hand, improved results in east Germany, with rising petrol sales for RWE-DEA and expanding construction activity, helped two important arms of the company to better results.

The mining and raw materials division, centred on Rheinbraun, Germany's biggest producer of brown coal for power generation, saw a drop in turnover of 13.6 per cent, without taking acquisitions into account.

Mr Gieske said the losses at Consol reached $42m as a result of the miners' strike, leaving RWE to carry its DM36m *share of* that amount. However, he promised much more favourable prospects for the US interest in 1994, with Consol strengthening its position in the low-sulphur coal market with the purchase of Island Creek.

Friedhelm Gieske: forecast a profit comparable to last year

Waste disposal, an area into which RWE has expanded rapidly in recent years, saw operating losses of $96m at NuKEM, where a big *restructuring programme* has been carried out.

Mr Gieske said the entire amount had been provided for in the company accounts up to December 31.

Overall group turnover increased by 3.4 per cent up to the end of March, although the growth excluding acquisitions was only 0.9 per cent.

Electricity consumption *stabilised* at a growth rate of 0.3 per cent, after 18 months of decline in line with the German recession. However, RWE Energie was the main beneficiary from improved depreciation allowances introduced by the German government to increase corporate competitiveness.

In particular, RWE has been able to write off a large portion of the *cost of its big* environmental programme to reduce emissions from power stations.

Kühne & Nagel in public offer

By Ian Rodger in Zurich

Kühne & Nagel, the international freight forwarding group, is going public with a placing this week of 181,000 bearer shares – 18 per cent of the enlarged capital – in Zurich and Frankfurt at SFr775 a share.

The group, in which Mr Klaus-Michael Kühne will *retain a majority stake*, also posted a 15.5 per cent rise in consolidated net income last year to SFr44.6m ($30.9m) on sales up 1.1 per cent to *SFr4.9bn.*

Mr Bruno Salzmann, finance director, forecast that net income would rise a further 12 per cent this year, suggesting the placing price was 15.5 times expected 1994 earnings.

Mr Kühne, 57, decided on the placing as part of the arrangements to ensure an orderly succession. He has no heirs.

Viag Bayernwerk Beheer of Holland acquired 33 per cent of the capital in 1992 when Lonrho of the UK, which had held a 50 per cent stake since 1981, withdrew.

Viag has first refusal on Mr Kühne's shares, and its policy *is for the public to hold large* minority stakes in its subsidiaries. The placing consists of 91,000 existing bearer shares, being sold by Deutsche Handelsbank, and 90,000 new shares.

Following the placing, Mr Kühne will hold 51.6 per cent of the capital and 56.7 per cent of the votes. Viag will have 30.3 per cent of the capital and 33.4 per cent of the votes.

Mr Salzmann said the group's medium-term targets were for annual cash flow of SFr90m to SFr95m and a 10 per cent annual rise in net income. It planned a 40 per cent to 50 *per cent distribution of profit* in dividends.

Sydbank to acquire Aktivbanken

By Hilary Barnes in Copenhagen

Sydbank is to acquire Aktivbanken and become Denmark's sixth-largest bank with *assets of about DKr50bn* ($7.5bn).

The takeover has solved a problem for Topdanmark, the insurance group, which bought Aktivbanken in 1989 *for* DKr1.4bn. Since then Aktivbanken has run up losses totalling DKr581m.

Topdanmark's involvement with Aktivbanken were factors in the resignation last month of Mr Henning Birch, Topdanmark's chief executive, and Mr Oluf von Lowzow, supervisory *board chairman.*

After the deal, Topdanmark will own 22.6 per cent of the shares in Sydbank and Top's life assurance and accident pol*icies will be sold through Syd*bank's branches.

Sydbank will pay krone for krone for Aktivbanken's net assets with an issue of shares with a market value of about DKr410m. Sydbank will make an underwritten issue of shares with a minimum price of DKr210 per share.

Following the share issues, Sydbank's capital adequacy ratio would be about 12 per cent, Topdanmark said.

Mr Carsten Andersen, Sydbank *chief executive*, said cost savings, equal to at least 12 per cent of the combined costs of the two banks would be made.

Marzotto falls 74% to L10.2bn

By Andrew Hill in Milan

A slump in demand on the world clothing market has hit 1993 profits at Marzotto, one of Italy's largest clothing and textile groups.

The company, which controls Hugo Boss, Germany's *biggest menswear designer*, yesterday *reported a 74 per* cent decline in net earnings to L10.2bn ($6m), against L39.8bn in 1992. Net earnings in *1991 were L40.1bn.*

Sales were little changed at L1,953bn, against L1,955bn, of which three-quarters came from the European Union.

The parent company announced a net profit of L4.4bn, compared with the 1992 loss *of L44.7bn*, which was struck only after some L70bn of extraordinary provisions. Sales of the parent company fell 8.3 per cent to L956bn, and operating profits were cut to L25.9bn from L55.2bn.

Marzotto's caution was *reflected in its decision to rec*ommend a cut in dividends, to L150 per ordinary share from L280.

However, the group said *orders* were *up in the first* quarter of 1994, both in Italy and in overseas markets. The end-March order book was worth L774bn, nearly 20 per *cent* higher than at the same time last year.

Sales at the same date had reached L591bn, down 2 per cent on the first quarter of 1992.

The company explained that it was in Italy – particularly in the market for classic men's clothing – that Marzotto felt the pinch last year.

The group said the downturn had offset growth in net profits from its textile manufacturing *subsidiaries*, and its holdings in Hugo Boss, and Linificio, a thread manufacturer.

Marzotto owns nearly 64 per cent of the voting stock of Hugo Boss, which last month announced 1993 profits 73 per cent higher at DM76.5m ($44.5m).

OMV posts record Sch4.4bn loss

By Patrick Blum in Vienna

OMV, the Austrian oil, gas and chemicals group, yesterday reported record losses for 1993 but a move back to profit in the first *quarter of this year.*

It said losses for last year totalled Sch4.43bn ($369m), against Sch604.6m in 1992, on turnover of Sch81.93bn, down *about 1 per cent. Losses on* ordinary activity were Sch924m, compared with Sch264.5m in 1992. But an extraordinary loss of Sch3.49bn, to cover restructuring, inflated the deficit. There will be no dividend for 1993.

Positive developments in the gas and trading branches, and *in refining in the second half* of the year, could not compensate for losses in the chemicals and plastics branches, Mr Richard Schenz, chairman, said.

The *group has gone* through a restructuring with plant closures and cost-cutting. More than 900 jobs were cut leaving the group workforce at 11,743 *at the end of 1993.*

Gas and trading generated operating profits of Sch1.44bn and Sch160m respectively, with all other activities showing a *loss. The biggest deficit was in* the plastics division with an operating loss of Sch1.2bn.

The group made a Sch190m pre-tax profit for the first quar*ter* of this year, reflecting mainly the positive effect of restructuring over the past two years, Mr Schenz said.

Bavarian bank plans DM1bn rights issue

By David Waller in Frankfurt

Bayerische Hypotheken-und Wechsel-Bank, one of Germany's two big Bavaria-based banks, is planning a one-for-10 rights issue. The terms will be fixed around June 20 and the issue of 2.3m new shares is likely to raise about DM1bn ($588m).

The bank, which recently reported a 33 per cent rise in pre-tax profits for last year, said it needed the money *in the* context of strong business growth last year and in the early months of the current year.

In the first two months of the year, Hypo-Bank's group operating profits rose by 17 per cent, reflecting the bank's strong position in the buoyant *mortgage lending market.*

The issue is the fourth from a leading German bank in the past six months. The most recent was Dresdner Bank's *innovative* DM1.2bn equity placing with international investors, details of which were announced *last* month. Of Germany's biggest five banks, only Deutsche Bank, the largest, has said it will not tap the equity market for the time being.

Viacom looks at selling Madison Square Garden

By Richard Waters in New York

Viacom, the US entertainment group, is considering selling its Madison Square Garden operations in a deal that analysts value at more than $1bn.

The company played down suggestions that it was being forced into a sale by the heavy debt load associated with its $10bn takeover of Paramount Communications, the former owner of the Garden.

The operations include the New York venue itself, two professional sports franchises which play there and a sports cable television channel.

Viacom said it had had "expressions of interest from a number of parties" interested in buying the operations, but did not say how far these discussions had progressed.

Mr Sumner Redstone, Viacom chairman, said: "While we have the option of retaining this extraordinary asset and building on its many strengths, it would be imprudent to ignore the many inquiries from possible buyers."

He added that Viacom planned to explore a sale of MSG "as part of an orderly process for determining how best to maximise shareholder value in the company".

His statement follows intense recent speculation that Viacom is likely to be forced into selling a number of substantial assets.

To help service the debt resulting from the Paramount takeover, the company has been counting on the completion of its planned merger with Blockbuster Entertainment, the US video rental group. Blockbuster itself has little debt and strong cashflow.

However, that transaction has looked in doubt as Viacom's B-shares, the currency for the deal, have tumbled in value in recent months.

The shares rose $⅜ yesterday to $22⅜. In January, when Blockbuster first agreed to buy a $1.25bn stake in Viacom, they were trading at $55.

Last week, Viacom said it would sell some parts of Paramount's publishing unit.

Eastman Kodak prepares for a new image

The chairman has persuaded the company to embrace change wholeheartedly, writes Patrick Harverson

The announcement by Mr George Fisher, chairman of Eastman Kodak, that the group would sell its healthcare and household products businesses delighted Wall Street for a simple reason: many analysts and investors doubted that the new Kodak chief had the guts to do it.

Ever since Mr Fisher took over the helm at the struggling photographic products group last December following the resignation of his predecessor, Mr Kay Whitmore, Wall Street has waited for the new chairman to outline his strategy for turning around Kodak, which has been heavily criticised for its lacklustre financial performance.

Most analysts were hoping Mr Fisher would choose to sell off Kodak's non-core operations so that it could concentrate on its photographic products and imaging business. But few were sure that he would be able to engineer such a dramatic shift at a company renowned for its stodgy corporate culture and resistance to change.

After all, Kodak had made five attempts in the past 10 years to restructure its businesses and generate better earnings, and all had failed. Why, critics asked, would it be any different this time?

Yet, judging by the planned restructuring, Mr Fisher – who made a name for himself as a brilliant technologist and manager while chairman of Motorola – has persuaded Kodak to embrace change wholeheartedly.

Under the divestment plan unveiled yesterday, the group will sell its pharmaceutical and consumer health products unit Sterling Winthrop, its personal care and household products business L&F Products, and its Clinical Diagnostics division. Between them, the three businesses generated almost a quarter of Kodak's 1993 revenues of $16.4bn.

When the divestment is complete – and Mr Fisher would not be drawn on whether the operations would be sold to another company or spun off in a public share issue – Kodak will be reduced to two main components. These are its imaging business, and its Health Sciences division, a unit which, with its X-ray film and electronics-based medical, cardiology, and dental diagnostic businesses, is regarded as a vital part of Kodak's imaging strategy.

The first impact of the divestments will be to improve dramatically the group's financial condition. Kodak is labouring under $7bn in debt, and the proceeds from the sale of the healthcare operations could eliminate the bulk of the group's debt at a single stroke.

Kodak paid $5.1bn for Sterling in 1988, but that purchase was completed when US drug stocks were at their peak, so it is unlikely the unit will sell for quite as much today.

The restructuring will also allow Kodak to concentrate on developing its imaging business.

Most of Kodak's photographic earnings are derived from its traditional film products, which uses a chemical process - the sensitivity to light from silver halide salts. Yet this business is threatened by the rapidly growing market for digital, electronic imaging.

Mr Fisher has taken steps to protect and develop Kodak's core business, including the recent formation of a new unit to lead the group's involvement in electronic imaging. Further, similar measures are likely soon; as Mr Fisher said yesterday, the divestments will allow Kodak to "attack a broader array of imaging opportunities around the world."

First, however, Kodak must dispose of its non-core businesses. The group should have little trouble finding a buyer for Sterling Winthrop, given the wave of merger activity in the pharmaceutical industry.

In fact, within hours of Kodak announcing its restructuring, the German drugs group Bayer expressed an interest in acquiring Sterling.

Mr Fisher, however, said yesterday the French company Elf Sanofi, a partner with Kodak in a worldwide drug sales venture, would get the first right of refusal to buy part or all of Sterling.

Sanofi shows interest in purchasing pharmaceuticals businesses

By John Ridding in Paris

Elf Sanofi, the French pharmaceuticals group, is interested in acquiring a substantial part of Eastman Kodak's pharmaceuticals businesses, either on its own or with partners, following the US group's announcement that it would sell its healthcare activities.

The French group, a subsidiary of Elf Aquitaine, the recently privatised oil group, already has a far-reaching alliance with Sterling Winthrop, the pharmaceuticals arm of Kodak, which dates from 1991 and which is based on the Elf Sanofi-Winthrop joint venture.

"Kodak's decision is a big opportunity for us to strengthen our pharmaceuticals activities in a rapidly changing market," said Mr Jean-François Debecq, Elf Sanofi chairman.

Elf sanofi said it was examining the possible acquisition of the businesses in which it was already involved with Sterling, namely the US group's prescription pharmaceuticals operations and its European over-the-counter drugs businesses. It said it was not interested in Sterling's US OTC operations, its household products or its diagnostic divisions.

Mr Debecq said the acquisition could be done alone or with partners. "There are a number of possible partners," he said, adding that Elf Sanofi was in a strong position with respect to the sale of Kodak's pharmaceuticals businesses because of its agreements with Sterling.

Mr Debecq said it was too early to estimate the size of the possible deals, but said Elf Sanofi would not need a capital increase. Instead, the company raised the prospect of a sale of assets to help finance the operations.

"Given the size of the possible transaction, we have begun a strategic review of business units in each of our three main activities," the company said, referring to its healthcare, beauty and bio-industry activities.

Industry observers said Elf Sanofi was a natural buyer for the bulk of Kodak's pharmaceutical businesses because of their existing alliance.

Elf Sanofi and Sterling Winthrop have integrated their prescription drugs and OTC products on a country-by-country basis. The French group controls the European activities of the joint venture, with Sterling Winthrop controlling operations in the US.

The stock market pushed Elf Sanofi shares down FFr43 to FFr975.

Freeport-McMoRan to separate units

By Laurie Morse in Chicago

Freeport-McMoRan, the New Orleans-based natural resources company, will split its two principal businesses, copper and gold mining and agricultural minerals, into two independent financial entities which will be distributed in a complicated transaction to existing shareholders.

Shares of the two new companies are expected to be more valuable than when they were combined as Freeport subsidiaries. The two businesses are quite distinct, and their fortunes often move in opposite directions.

Mr Clarence Morrison, analyst with Prudential Securities, said the split would offer investors a clearer play in either copper mining or fertilisers.

Mr James Moffett, Freeport-McMoRan chairman, said the proposed restructuring would benefit the companies and their securities holders by improving access to the credit markets, reducing debt service costs and eliminating possible liability cross-overs between the two companies.

Freeport's earnings have been recovering, partly because copper and gold output in Indonesian operations rose in the first quarter, and because the company has insulated itself from copper price volatility using derivatives-based price protection.

On the agricultural side, Freeport is in a joint venture with IMC-Agrico that is expected to produce cost savings of $95m by the end of its second full year. During the first quarter Freeport had net earnings of $12.3m, or 9 cents a share. Freeport-McMoRan Copper and Gold had operating earnings of $58m, and Freeport Resources Partners, the agricultural division, had operating earnings of $21.1m.

The restructuring, which one Wall Street analyst called a "fair transaction", will have the effect of converting much of the company's debt into equity without any share dilution. Freeport will distribute to its existing shareholders all of its interest in Freeport-McMoRan Copper and Gold in a transaction it hopes will be tax-free. The deal is contingent on a favourable ruling by tax authorities, debt restructuring and shareholder approval.

After the distribution, Freeport-McMoRan's business will consist solely of its 51 per cent interest in Freeport-McMoRan Resources Partners, a company which specialises in fertilisers and agricultural minerals.

As part of the deal, Freeport said it would begin to distribute Freeport-McMoRan Copper and Gold shares to shareholders in lieu of first-quarter dividends at a rate of one Copper and Gold share for each 80 Freeport-McMoRan shares.

Falconbridge plans C$1.3bn share issue

By Robert Gibbens in Montreal

Falconbridge, the west's second-biggest nickel producer, plans to go public again with a C$1.3bn (US$940m) share offer.

Pricing will be set around mid-June. The offer is being made in Canada and by private placement internationally, said Mr Lars Eric Johannson, senior vice-president. Proceeds will help to pay off Falconbridge's C$1.8bn debt.

Canada's Noranda and Trelleborg of Sweden each acquired 50 per cent of Falconbridge five years ago for C$2.2bn.

After the offer, Noranda's equity holding will be about 45 per cent. But Trelleborg will not participate and its interest will drop to 30 per cent. The public will hold about 25 per cent.

Falconbridge's main operations are the nickel mines at Sudbury, Ontario, where new deep reserves have been found, the Kidd Creek copper-zinc mine in northern Ontario, a nickel refinery in Norway and nickel mines in the Dominican Republic. It also owns one-third of the C$1bn Collahuasi project in Chile.

Many analysts believe base metals prices are due for recovery with improving world economic growth.

The underwriting group is led by Wood Gundy, Burns Fry, Gordon Capital and RBC Dominion Securities.

Telmex falls 14% in quarter

By Damian Fraser in Mexico City

Teléfonos de México, the country's monopoly telephone utility, reported net profits of 1.85bn pesos ($566m) in the first quarter, a drop of 14 per cent on the same period last year.

Telmex's profits were pushed down by an exchange rate loss of 719m pesos on foreign currency debt resulting from the depreciation of the peso against the dollar and weakness of the dollar against the yen.

Excluding the exchange rate loss, the underlying results showed robust growth. Operating profits reached 2.94bn pesos, a 13 per cent advance, while revenues climbed to 6.63bn pesos, an increase of the same amount.

The rise in sales was helped by unexpectedly strong growth of international telephone traffic, which rose 22.3 per cent in the quarter, far higher than last year's increase.

Long distance traffic was up by 11.6 per cent, and local calls grew by 12.3 per cent.

S&P warns over Japanese banks' asset problems

By Emiko Terazono in Tokyo

Asset-quality problems at Japanese banks, which face increasing bad-loan levels, will take several years to resolve, according to Standard & Poor's, the international credit rating agency.

While the pace of increases in problem loans has slowed, the agency estimates that problem loans at 23 leading Japanese banks totalled Y30,000bn to Y35,000bn ($275bn to $321bn) *for the business* year ended last March – a substantial deterioration from the Y13,700bn in bad loans disclosed by 21 leading banks last September.

The official figure given by the banks only includes loans to now-bankrupt borrowers, or those who have not paid interest for more than six months, while *S&P broadly considers* loans with the likelihood of becoming loss-making.

The credit agency recently downgraded its debt ratings on many of the leading Japanese banks due to the mounting *pressure the banking system* faces.

"Japanese banks' biggest challenge now is how to extricate themselves from problem assets as quickly as possible without reporting red figures," S&P says.

But without the prospect of a significant rebound in core earnings in the near term and with the equity market remaining sluggish, the clean-up process is expected to reduce financial flexibility as banks try to rebuild their balance sheets and cope with financial reform.

However, due to the increasing transparency of the banks' asset problems and the slowing of the increase in new problem loans, the agency predicts that future downgrades of banks' ratings are less likely.

● The Co-operative Credit Purchasing Company, the bad-loan purchasing organisation, said it bought Y65.1bn worth of bad loans from banks at a price of Y22.9bn during April.

The company, set up by a consortium of banks, said it purchased a total Y4,585.1bn worth of bad loans backed by real estate collateral for Y2,253.9bn since it started operations in March last year. But *only* Y37.68bn has been recovered through sales of the real estate due to the slump in *the property market.*

S African retailer lifted by tax changes

By Mark Suzman in Johannesburg

Heavy pressure on operating margins meant that Pepkor, South Africa's biggest retail group, was only able to increase *operating profit by 3* per cent for the year ending February, to R275m ($80.6m) from R267.2m.

However, lower tax and finance charges meant that after-tax profit increased 16 per cent to R184.7m from R161.35m.

Turnover rose to R8.24bn from R7.76bn, largely due to increased market share achieved by core operation Pep stores, which target the mainly black, mass market.

Shoprite, the subsidiary that controls supermarket chain Checkers, also performed well, withstanding the effects of a five-week strike and a flat trading market to boost after-*tax profits 27 per cent to* R43.56m from R35.79m.

Announcing the results, management declared 1994 as the "most difficult [year] to date in the history of the group" but said the improving political and economic climate, particularly among the black consumers that constitute much of Pepkor's market, should help future performance.

The company is also involved in negotiations which may lead to a bid for troubled UK retailer What Everyone Wants. Results of the bid will be known on Monday at WEW's annual meeting.

● Edgars, the clothing, footwear and textiles group in the South African Breweries stable, increased after-tax profit 11 per cent to R171.2m from R175.3m *last year.*

Sales increased 16 per cent to R3.68bn from R3.18bn, boosted by the acquisition of Shoecorp.

The results, which were boosted by a slight reduction in taxation and net financing costs, reflected an improvement in market share despite the continued depressed overall trading environment.

Delayed issue damages emerging markets

Stefan Wagstyl and Sara Webb examine the postponement of a $1bn Euroequity offer

The postponement yesterday of the *$1bn Euroequity issue* by Videsh Sanchar Nigam (VSNL), the state-owned Indian international telecommunications monopoly, is a blow for the company, the country and for emerging markets.

But it is a blow from which VSNL, India and the markets can all recover. Financial ventures in developing countries are by nature risky. The fact that *one attempt to raise funds has failed* will probably not cast a permanent shadow over future offerings, though it may well make life difficult for Indian issuers over the next few months.

VSNL's decision to defer the issue after frantic talks with the government in Delhi and with the global co-ordinators, Salomon Brothers of the US and Kleinwort Benson of the UK, has left all involved feeling embarrassed.

There will be recriminations, particularly in India, where economic globalisation and the disposal of state-owned assets are sensitive political questions.

The issue failed mainly because of bad timing, compounded by over-ambitious pricing and, in the final stages, inflexibility in decision-making which made it impossible for the issuers to cut the price to save the offer.

From the start, VSNL was no ordinary offering. The Indian government, which owns 85 per cent, saw it as a flagship of its otherwise undistinguished portfolio of state-owned enterprises.

When VSNL indicated late last year its interest in an international equity offering, investment bankers drooled at the prospect, not least because India *was in fashion in international markets.* Salomon and Kleinwort secured the mandate for the issue against tough competition. Quite apart from the prestige of handling India's biggest-ever issue, there were the fees. The going rate for complex international offerings such as European privatisations is 3 per cent of the amount raised. If VSNL had raised $1bn, it would have paid about $30m – of which *Salomon and Kleinwort* would have received at least half.

Shares prices in Bombay soared between November and February, taking VSNL from about Rs650 to a peak of more than Rs1,700 in January and February. This tempted VSNL and the government to double the size of the issue from $500m to $1bn and to aim for a price of Rs1,400 to Rs1,600.

But by the time the issue was ready *for market* in early April, the investors' mood had changed. An increase in US interest rates had soured the markets, especially the volatile emerging markets. Potential investors told the company that the shares, priced at about 90 times 1993 earnings, were too expensive. In hasty talks last weekend, Salomon and Kleinwort tried to save the issue by securing permission to approach fund managers informally with a lower price. It emerged that the shares could be sold at Rs1,100 to Rs1,200, raising some $700m and that investor demand would be sufficient for the deal to go relatively smoothly.

It seems that the VSNL board, gathered in London, wanted to proceed. So did Mr N Vittal, chairman of the government's Telecommunications Commission and an advocate of economic liberalisation, who was also in London. But in Delhi, in meetings late on Monday, others counselled caution, notably Mr Sukh Ram, the telecommunications minister who is opposed to over-hasty deregulation and who insisted that price was an issue for the Cabinet. The prime minister's office agreed. So at 4am London time yesterday, the lead managers were asked to postpone the offer.

The decision has no immediate impact on VSNL since its investment *plans are flexible* and do not depend on the issue for finance.

The Indian government, which needs privatisation proceeds for cutting its fiscal deficit, will be under pressure to find funds elsewhere. It will also face criticism for having mishandled the deal. However, *it will avoid accusations* of having sold the "family jewels" cheaply.

Indian companies, which raised about $2.5bn in 1993-94 in Euroissues, are planning to raise a further $9bn in 1994-95. Brokers and fund managers were divided last night how the VSNL failure would affect their prospects. Some thought future issues might also be postponed, but others thought the failure of VSNL would leave more funds available for other offers. Mr Jeff Chowdhry, director at Barclays de Zoete Wedd Investment Management, said: "Inevitably this will put further issues on hold but that may not be such a bad thing as it will create time for digesting Indian paper."

Bank Bumiputra backs private power plan

By Kieran Cooke in Kuala Lumpur

Bank Bumiputra, the Malaysian state-owned bank which has been dogged by controversy and bad debts, is fully underwriting a M$587m (US$212.7m) loan to a consortium of local companies involved in Malaysia's independent power programme.

The consortium, Powerteck, has the license to build, own and operate a 440MW gas fired power station in Malacca, on the west coast of peninsular Malaysia.

This is the third loan Bank Bumiputra has made in recent months to companies involved in Malaysia's plan to privatise part of the electricity industry.

The bank says the loans – all in ringgit, the Malaysian dollar – show the maturity of the local capital market.

However, some financiers have expressed concern that Malaysian financial institutions, and Bank Bumiputra in particular, are too exposed in one sector. They have also asked why foreign banks have chosen not to become involved in the private power sector.

NEWS DIGEST

Ansett flies abroad from September

By Nikki Tait in Sydney

Ansett, the Australian airline which is owned jointly by Mr Rupert Murdoch's News Corporation and TNT, the transportation group, yesterday unveiled its long-awaited plans to become an international carrier.

It will focus on routes to Japan and Hong Kong but defer plans for Malaysia, Singapore and South Korea.

The new services will start in September, using Boeing 747 aircraft leased from Singapore Airlines – part of a "wide-ranging strategic alliance" between the two carriers. Initially, there will be five *flights* a week to the new Kansai airport at Osaka, and three services a week to Hong Kong.

Mr Ken Cowely, Ansett's chairman, said he expected the new operation to generate positive cashflow in the second year of operation. He said start-up losses in the first year should not exceed A$50m (US$36m) while revenues should total around A$150m.

North Broken Hill unit plans US buy

North Broken Hill Peko's Warman International unit, which makes slurry pumps, is negotiating to buy the assets of Barrett, Haentjens, a US slurry pump company better known as Hazleton Pumps.

Warman has annual sales of more than A$200m, and said that the acquisition would bring in further turnover of around US$26m.

Central Norseman in new venture

Central Norseman Gold Corporation, *50.5 per cent owned by* Australia's Western Mining Corporation, is to go ahead with the development of a gold mining operation at Norseman in Western Australia.

The Harlequin underground mine is the first new mining venture for Central Norseman for three years. The mine will be located about 9km north of *Norseman, and 1.5km west of* Central Norseman's North Royal mine.

No details of the development cost were released, *although it is understood to be* in excess of A$10m.

Savage Resources undersubscribed

Savage Resources, the Australian company acquiring the US zinc mining assets of Belgium's Union Minière for US$200m, said its rights issue, designed to help fund the deal, was less 75 per cent subscribed.

Some 135.8m shares, representing A$169.7m, were committed to by shareholders, leaving 47.7m shares, or A$58.9m-worth, to be taken up by the underwriters, Ord Min*nett and Prudential-Bache.*

The issue price had been set at A$1.25 two months ago, when the stock market was at significantly higher levels.

Nigerian divestment agreed by Unilever

By Paul Adams in Lagos

Unilever, the UK-Dutch consumer goods group, *has agreed plans to divest from its* Nigerian affiliate, UAC, in which it has a 40 per cent stake valued at around $46m.

UAC has evolved from a trading operation into Nigeria's largest manufacturing, packaging and distribution conglomerate, with the 60 per cent Nigerian-owned shares held by both private and institutional investors.

Unilever will re-invest the cash from the divestment in its core sectors, including food and personal products. UAC will remain the flagship company of Nigeria but without foreign ownership and management for the first time in its 74-year history.

The Nigerian authorities approved a complex restructuring of UAC and the transfer of Unilever's assets to a new holding company, Unilever Nigeria, ensuring that no capital leaves Nigeria.

Unilever will retain *its 40 per cent share* in UAC's tractors *and equipment* division (the Caterpillar dealership), which will become a *separate* joint venture, and acquire all the shares in A.J. Seward, the consumer goods arm. The two holdings account for half the *value ofstake in UAC.*

Unilever will sell its shares in the other divisions of UAC and re-invest the capital in new ventures in Nigeria, all under the newly-formed Unilever Nigeria.

Unilever's remaining UAC shares (worth about $21m at the current share price) will be offered for sale to the public at the same time as UAC issues new shares.

Company sources say that *subject to clearance* by an extraordinary general meeting in May and by the courts in June, the share offer will follow as soon possible.

Attention Kemper Shareholders

The Kemper Annual Meeting is next week.

The question before you is clear: Do you want Kemper sold now for full and fair value? If so, send that message to Kemper's Board and management by voting for the election of GE Capital's nominees on the BLUE proxy card today.

In making your decision, you should consider the following:

1. GE Capital's $55 per share proposal provides shareholders with a significant premium.

Our proposal is almost 40% over the market price of Kemper's common stock on January 26, 1994 ($38⅜ per share), when we first approached Kemper's management and expressed our interest. **Ask yourself:** Where would Kemper's stock be without the GE Capital proposal?

2. GE Capital should be given an immediate opportunity to review Kemper's real estate portfolio to determine if a higher price is warranted.

Kemper has said "NO". NO to our proposal—and NO to sharing with us the information necessary to justify an increased price.

Therefore, the question for you, Kemper shareholders, is: Should Kemper be sold now for full and fair value? We will follow your wishes. If we win, our nominees are committed to an immediate sale of Kemper for at least $55 per share. If not, we will withdraw our proposal.

WE URGE YOU TO SIGN, DATE, AND MAIL THE BLUE PROXY CARD TODAY.

GE Capital

IMPORTANT

If your shares are held for you by your broker or bank, only your broker or banker can vote your shares and only upon receipt of your specific instructions. If you have not already instructed your broker or banker to vote your shares on the BLUE PROXY CARD as recommended by General Electric Capital Corporation, please contact the person responsible for your account and instruct that individual to vote the BLUE PROXY CARD on your behalf today in accordance with General Electric Capital Corporation's recommendations.

If you have questions or need assistance in voting your shares, please contact D. F. KING & CO., INC., which is assisting General Electric Capital Corporation, toll free at 1-800-859-8511.

US Treasury prices recede in thin trading

By Frank McGurty in New York and Sara Webb in London

US Treasury bonds receded in thin trading yesterday as dealers adjusted their positions ahead of Friday's important data on labour market conditions last month.

By mid-session the benchmark 30-year government bond was down ¼ at 86¾, with the yield rising to 7.351 per cent. At the short end of the yield curve, the two-year note was ⅛ easier at 99⅔, to yield 5.837 per cent.

Earlier, prices had drifted lower as the market followed through on the previous session's selling and on weakness in bonds overseas.

The negative tone was worsened when traders misconstrued comments made by Mr Wayne Angell, a former Federal Reserve governor recently named as chief economist at Bear Stearns, the New York securities house.

Mr Angell said that if the Federal reserve intended to lift interest rates again before its May 17 policy-making session, it would probably have done so yesterday.

It was later made clear that Mr Angell thought the likelihood of a move yesterday was remote.

But speculation over an immediate tightening had only a brief impact on prices. The long end of the maturity range soon climbed off its session lows, resulting a flattening of the yield curve.

A fresh decline in the dollar against the yen and D-Mark had little impact on the market. Neither did the day's economic news.

The Commerce Department said that the leading indicators, designed to predict future economic strength, rose by 0.7 per cent in March, against a consensus forecast of a 0.6 per cent rise.

Instead, most retail accounts were sitting on the sidelines, while dealers were unwinding speculative positions set up earlier in anticipation of April employment data due at the end of the week. The result was a modest slump across the board.

GOVERNMENT BONDS

■ European government bond markets closed lower, with the UK and Spain experiencing the sharpest declines yesterday.

UK government bonds were depressed by the combination of unfavourable M0 data, political jitters ahead of the local elections and lack of investor interest, dealers said.

The narrow money-supply measure M0 was reported growing at an annual rate of 6.2 per cent in April, above the expected figure of 5.8 per cent.

Dealers said that the figure implied that consumer spending remains robust, and *therefore reduced the prospect of a near-term cut in the base rate.*

Meanwhile, dealers complained at the poor investor interest in the gilts market. "Investors just remain sidelined in these conditions," said one gilts salesman.

The Liffe gilt futures contract opened at 105.30, touching a high of 105.31 early in the day and settling at 104.28 – but shortly after settling, the contract dropped down to a low of 104.16 in the late afternoon.

■ *Spanish government bond* prices were hit early in the day, mainly on continuing twists and developments in the country's long-running political scandals. The Meff futures contract dropped sharply from its opening level of 97.10 and fell to a low of 96.35, settling at 96.50.

■ German bunds ended lower *after a fairly volatile session,* with little immediate news to focus on apart from the prospect of another interest rate cut at today's repo, traders said.

After fairly generous cuts at the last two weekly repo operations, the repo rate stands at 5.47 per cent, and dealers said they expect to see a further lowering of the rate by between three and seven basis points today.

The Liffe bund futures contract opened at 95.20 – which *was also the high of the day* – fell back, then recovered and finally dropped down again to a low of 94.88 by late afternoon.

Index shows widespread declines for year to date

By Conner Middelmann

Most government bond markets suffered declines in *the first four months of 1994,* ranging from a 0.15 per cent drop in Italy to a 7.81 per cent decline in the UK gilt market, J. P. Morgan's bond index shows.

Much of the negative performance was triggered by the sell-off in the US Treasuries market, where strong economic growth, mounting inflation concerns and Fed tightening combined to drive yields higher and increase volatility.

This spilled over into Europe, where signs of *stronger-than-expected economic revival* added to market jitters, J.P. Morgan states.

Japan was the only government bond market to post positive returns in April, rising by 0.17 per cent in local currency terms on the back of a stronger yen, low inflation and signs of continued weak economic activity.

European government bonds posted further losses last month, in spite of continued easing by the Bundesbank and accompanying rate cuts by other central banks.

Total returns in Europe fell by 0.81 per cent, with Sweden, the worst performer, shedding as much as 1.56 per cent.

The UK market *also performed poorly in April,* falling by 1.21 per cent in response to inflation concerns and increasing political uncertainty ahead of forthcoming local and European parliamentary elections.

Shedding only 0.03 per cent, Italy was Europe's top performing market, *supported by hopes for a stable new government following the victory of the right-wing alliance in the March elections.*

Spain, Europe's other high-yielder, was the second-best performer, declining by 0.41 per cent.

Unhedged US dollar investors benefited from the strength of most major currencies against the dollar last month. In US dollar terms, the index rose by 0.49 per cent. The yen's appreciation contributed to a total return of 1.41 per cent on Japanese government bonds in US dollar terms. Similarly, the lira's strength helped Italian bonds show a 1.16 per cent return.

Volatile conditions keep activity to a minimum

By Conner Middelmann

Eurobond issuance dried to a trickle yesterday, with Japanese markets slowed by Golden Week holiday, and tomorrow's UK local elections and Friday's *US jobs data looming.*

Volatile conditions in some of the underlying government bond markets are keeping activity to a minimum.

INTERNATIONAL BONDS

"A lack of investor interest doesn't usually stop underwriters from issuing bonds, but given the current volatility, they're less inclined to hold unplaced paper on their books," said one syndicate official.

The Canadian Wheat Board braved the Canadian dollar *sector ahead of Ontario's budget announcement tomorrow.* The triple-A rated government agency issued C$125m of 7½ per cent three-year bonds priced to yield five basis points over the interpolated government bond yield curve.

That spread widened to around 7½ basis points by the close, said lead manager Hambros Bank.

Targeted mainly at retail investors, the issue was said to be slow to place. However, one dealer said the spread was likely to tighten, as it did with the recent three-year issue for Canada's Export Development Corporation, which now yields substantially less than government bonds after being issued flat to them.

The day's other deal was a self-led L200bn issue of 9¾ per cent 10-year bonds with a four-year call option for Credito Italiano. At less full fees, the *paper yields 10.03 per cent to* maturity (80 basis points over the corresponding government bond) and 10.29 per cent to the four-year call date (130 basis points over).

According to Mr Niccolo Nuti, head of capital markets at Credito Italiano, the issue saw strong demand from Italian investors attracted by the high coupon and the familiar name.

● *Although South Africa* stands a good chance of achieving a successful economic *performance, its debt is unlikely* to achieve an investment grade credit rating in the foreseeable future, the European rating agency IBCA said.

Examining prospects following last week's first multiracial elections, IBCA warned that overseas capital flows to South Africa are still smaller *than capital flight by current* residents; that investment has been low and needs to rise *sharply; and that the balance* of payments has been a traditional weakness of the economy.

Consequently, the scope for a rise in living conditions is limited and there is little scope for income redistribution if the skills of the middle class white population are to be retained, *IBCA said.*

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
CANADIAN DOLLAR							
Canadian Wheat Board(a)	125	7.50	99.20R	Dec.1997	0.20R	+8 (7¼%-97)	Hambros Bank
ITALIAN LIRE							
Credito Italiano, HK(b)	200bn	9.75	100.30	Jun.2004	2.00	-	Credito Italiano
LUXEMBOURG FRANCS							
CNCP/NKGK Int. Finance(c)	1bn	7.00	102.50	Jun.1999	1.75	-	Crédit Européen-BBL
CNCP/NKGK Int. Finance(d)	1bn	7.50	102.25	Jun.2002	2.00	-	Crédit Européen-BBL

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. R: fixed re-offer price; fees are shown at the re-offer level. a) Short 1st coupon. b) Callable on 2/6/98 and annually thereafter at par. c) Tranche A. d) Tranche B.

Buoyant Paris stock market puts brokers back in black

By Alice Rawsthorn in Paris

France's stockbrokers moved back into the black last year due to the buoyant state of the Paris stock market, which helped them to return to profit after three years of heavy losses.

The latest figures from the French Stockbrokers' Association show that the 57 French stockbrokers made collective *net profits of FFr1.01bn ($179m)* in 1993. The surplus compares with an aggregate deficit of FFr1.96bn for the three preceding years.

The chief catalyst for the return to profits, according to the association, was the "explosion in volume trading" during the year combined with a "sig*nificant reduction in restructuring costs*" for the stockbrokers themselves.

Last year marked a turning point for France's stockbrokers, *which suffered severely* during the sluggish climate of the early 1990s.

The industry then faced the parallel problems of low volume – reflecting weak demand for French equities following the bullish conditions of the mid-1980s – and fierce competition fuelled by the arrival of *foreign* houses in the Paris market.

These problems were aggravated by the strategy adopted by some of France's big banks of using their stockbroking subsidiaries as loss-leaders to protect their positions elsewhere in the financial sector, thereby destabilising the mar*ket and making life more difficult* for the incoming foreign houses.

However, the Paris stock market rallied last year as foreign funds poured into France. At the same time the supply of equity increased, due to a stream of issues from private sector companies and the Balladur government's privatisation programme.

The programme began last year with the sale of the state's stake in Banque Nationale de Paris, and is continuing with the current Union des Assurances de Paris issue.

As a result, the industry has benefited from increased demand and an improvement in the Paris stock market's long-standing liquidity problem, which has enabled the stockbrokers to return to profit.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		*9.500*	*08/03*	*106.6300*	*-0.280*	*8.45*	*8.19*	*7.88*
Belgium		7.250	04/04	98.2600	+0.080	7.50	7.59	7.23
Canada *		6.500	06/04	87.6500	-1.650	8.34	8.12	7.95
Denmark		7.000	12/04	98.1000	-0.450	7.26	7.38	6.93
France	BTAN	8.000	05/98	106.1250	-0.380	6.22	6.38	5.76
	OAT	5.500	04/04	89.9700	-1.030	6.93	6.96	6.56
Germany		6.000	09/03	96.7900	+0.610	6.46	6.63	6.33
Italy		8.500	01/04	96.3000	-0.200	9.06†	8.95	9.11
Japan	No 119	4.800	06/99	106.4450	+0.350	3.33	3.40	3.43
	No 157	4.500	06/03	104.1070	+0.280	3.89	3.98	4.01
Netherlands		5.750	01/04	93.7400	-0.150	6.64	6.81	6.48
Spain		10.500	10/03	106.0000	-1.150	9.49	9.36	9.19
UK Gilts		6.000	08/99	92-31	-20/32	7.65	7.61	7.20
		6.750	*11/04*	*90-26*	*-49/32*	*8.06*	*7.83*	*7.63*
		9.000	10/08	107-00	-57/32	8.17	7.96	7.79
US Treasury *		5.875	02/04	91-10	-18/32	7.12	6.93	6.77
		6.250	08/23	86-20	-27/32	7.37	7.22	7.09
ECU (French Govt)		6.000	04/04	90.7200	-0.720	7.35	7.38	6.95

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. *Source: MMS International*

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	6¼	One month	3.62	Two year	5.84
Broker loan rate	5	Two month	3.88	Three year	6.17
Fed.funds	3½	Three month	4.14	Five year	6.72
Fed.funds at intervention	-	Six month	4.61	10-year	7.12
		One year	5.15	30-year	7.36

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	120.84	120.50	-0.48	120.92	120.50	151,042	139,444
Sep	119.98	119.60	-0.52	119.98	119.70	3,603	16,938
Dec	119.16	118.70	-0.60	119.16	118.70	665	3,121

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
120	1.33	1.80	-	0.83	2.08	-
121	0.76	-	1.50	1.19	-	-
122	0.36	0.90	-	1.79	-	-
123	0.13	0.64	*0.75*	2.58	-	-
124	0.05	0.40	-	-	-	-

Est. vol. total, Calls 34,851 Puts 48,728. Previous day's open int., Calls 426,812 Puts 309,877.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.20	94.88	-0.24	95.20	94.72	90802	167658
Sep	*94.58*	*94.46*	*-0.19*	*94.72*	*94.39*	*859*	*13554*

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
9450	0.98	1.52	0.60	1.56
9500	0.70	1.27	0.82	1.81
9550	0.48	1.06	1.10	2.10

Est. vol. total, Calls 11667 Puts 10900. Previous day's open int., Calls 334295 Puts 309038

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.00	100.05	-0.03	100.00	100.00	16	1880

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.05	111.90	-0.41	112.35	111.55	34641	77185
Sep	111.20	111.30	-0.41	111.30	111.20	12	2026

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
11150	1.29	2.60	0.89	2.70
11200	1.02	2.27	1.12	2.97
11250	0.81	2.05	1.41	3.25

Est. vol. total, Calls 1541 Puts 936. Previous day's open int., Calls 84742 Puts 80599

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	97.10	96.50	-0.80	97.10	96.35	52,765	117,139
Sep	-	96.90	-	-	-	-	823

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-30	104-28	-1-13	105-31	104-18	52416	119896
Sep		104-00	-1-12			0	398

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
104	1-50	2-41	0-58	2-41
105	1-14	2-11	1-22	3-11
106	0-51	1-50	1-59	3-50

Est. vol. total, Calls 3974 Puts 5534. Previous day's open int., Calls 98549 Puts 77023

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	87.60	87.36	-0.24	87.76	87.30	2,862	7,740

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	104-12	104-13	-0-02	104-15	104-02	573,675	413,643
Sep	103-13	103-15	-	103-16	103-04	7,983	55,557
Dec	102-18	102-27	-0-09	102-27	102-16	1,695	33,161

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	*112.92*			*113.11*	*112.92*	*390*	*0*

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue May 3	Day's change %	Fri Apr 29	Accrued interest	xd adj. ytd		Low coupon yield May 3	Apr 29	Yr. ago	Medium coupon yield May 3	Apr 29	Yr. ago	High coupon yield May 3	Apr 29	Yr. ago
1 Up to 5 years (23)	122.74	-0.13	123.12	1.34	4.34	5 yrs	7.66	7.62	7.10	7.87	7.80	7.40	7.98	7.89	7.61
2 5-15 years (23)	144.73	-0.49	145.45	1.83	4.84	15 yrs	7.97	7.87	8.02	8.08	7.99	8.44	8.37	8.26	8.71
3 Over 15 years (9)	163.60	-0.91	165.10	2.51	3.76	20 yrs	7.97	7.87	8.24	8.08	7.98	8.54	8.26	8.14	8.76
4 Irredeemables (6)	185.06	-1.34	187.58	0.09	6.12	Irred.†	8.07	7.96	8.60						
5 All stocks (61)	141.67	-0.48	142.40	1.77	4.53										

Index-linked							Inflation 5% May 3	Apr 29	Yr. ago	Inflation 10% May 3	Apr 29	Yr. ago
6 Up to 5 years (2)	184.48	-0.08	184.64	0.42	2.53	Up to 5 yrs	3.51	3.47	2.70	2.95	2.51	1.88
7 Over 5 years (11)	178.01	-0.29	178.54	0.83	1.69	Over 5 yrs	3.52	3.50	3.59	3.34	3.32	3.41
8 All stocks (13)	177.80	-0.27	178.29	0.79	1.77							

Debentures and Loans						5 year yield May 3	Apr 29	Yr. ago	15 year yield May 3	Apr 29	Yr. ago	25 year yield May 3	Apr 29	Yr. ago
9 Debs & Loans (75)	132.50	-0.29	132.88	2.13	4.17	8.88	8.88	9.02	9.17	9.08	9.53	9.11	9.07	9.68

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 3	Apr 29	Apr 28	Apr 27	Apr 26	Yr ago	High*	Low*
Govt. Secs. (UK)	95.18	95.68	96.00	96.34	96.06	95.04	107.04	95.18
Fixed Interest	114.45	114.82	115.41	115.74	115.42	111.00	133.87	114.45

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25
Gilt Edged bargains	88.0	115.1	116.6	199.0	86.8
5-day average	103.1	110.3	114.5	115.9	126.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 3

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
United Kingdom 7½ 97	5500	103½	103⅝		5.97
Abbey Natl Treasury 8 03 £	1000	95⅝	95⅞	-½	8.72
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1994 High	1994 Low
Shorts* (Lives up to Five Years)							
Treas. 10pc Ln. 1994‡‡		9.94	4.95	100⅝xd	—	102⅛	100⅝
Exch 12½pc 1994		*12.22*	*4.97*	*102⅛*	—	*104⅝*	*102⅛*
[illegible]							

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Brown & Jackson still in talks with Pepkor

By Andrew Bolger in London and Mark Suzman in Johannesburg

Pepkor, the South African retailer, is still holding talks with Brown & Jackson, the troubled discount retailer which last month announced a rescue deal with the Weisfelds, the millionaire couple who created the What Everyone Wants chain.

B&J shareholders are scheduled to vote at an EGM next Monday on the plan for Mr Gerald and Mrs Vera Weisfeld to inject £6m to meet the loss-making group's immediate working capital needs, in return for a 19 per cent stake and two seats on the board.

A Pepkor director said in Johannesburg: "We certainly are negotiating but discussions are at a very sensitive stage and we cannot yet confirm that we are making a bid for the company."

Neither Mr Christo Wiese, Pepkor's executive chairman, nor Mr CE Moore, the group's finance director, were in South Africa on Monday – even though that was the day of Pepkor's annual results. Both are currently believed to be in England.

B&J, which owns the Poundstretcher chain and had been in talks with its bankers, said last night: "We will not comment on market rumours. Ever since our problems began, a number of people have been in touch. The only people to put a deal on the table are the Weisfelds – and we are pleased with that and them."

Pepkor is Africa's largest mass-market retailer.

The group's core business, PEP, retails goods to a predominantly black customer base.

Its international presence has been hitherto restricted to Scotland but it has been on the lookout for further international acquisitions.

B&J's shares were unchanged at 5¼p yesterday.

Colin Beere

Gerald and Vera Weisfeld: planning £6m injection

Institutional unease over Lasmo bid terms

By Robert Corzine and Peggy Hollinger

Shareholders in rival explorers Enterprise Oil and Lasmo were yesterday expressing unease over the terms and structure of Enterprise's hostile £1.5bn offer.

Some of the largest institutional stakeholders say they are not yet convinced by Enterprise's arguments that it needs to reach a "critical mass" in order to increase the return to both companies' shareholders in a climate of low oil prices.

"Enterprise would have to put together a more compelling argument for merging the two businesses," said one institutional investor in both companies.

Enterprise yesterday posted its offer documents to Lasmo shareholders, prompting Mr Rudolph Agnew, Lasmo chairman, to charge that the bid "smacks of desperation and the pursuit of size for its own sake".

Shareholders' main concerns appear to be the valuation placed on Lasmo, which so far excludes a cash alternative, the unusual equity structure and the timing of the bid. The offer of 27 Enterprise A shares and 12 warrants for every 80 Lasmo shares, in effect creates a new class of shareholder with limited dividend rights.

One Enterprise shareholder said the equity structure prompted fears that the company was seeking to offset risk which it was not prepared to take. It "raises suspicions that there may be something they might be worried about," the investor said.

Another institution suggested the paper offer may have overvalued Lasmo's assets. Enterprise says a cash element, either through a cash sweetener or underwriting arrangements, could be contemplated. But executives are concerned it would weaken its argument that the proposed financing arrangement gives Enterprise maximum flexibility to develop the combined assets of the two companies.

Mr Andrew Shilston, Enterprise finance director, said yesterday that a cash bid "forces you to run the assets for cash, and therefore doesn't give you scope to unlock all the value of the assets".

Enterprise is expected to try to persuade shareholders that an independent Lasmo will miss opportunities while it completes large development programmes, such as Liverpool Bay. But Mr Joe Darby, Lasmo chief executive, yesterday said "he wouldn't be too happy" spending much more than the £50m a year on exploration and assessment given the uncertainty over prices.

Laura Ashley sells $27m US stake

By David Blackwell

The US subsidiary of Laura Ashley, the clothing and furnishings retailer and manufacturer, is selling its 44.4 per cent holding in Revman Industries, the North American bed linen designer, manufacturer and wholesaler.

Laura Ashley will receive $27.1m (£18m), comprising $19m in cash plus the redemption at par value of preferred stock which amounts to $8.05m cash.

The directors stated that the company would also receive accrued dividends on the preferred stock.

The purchaser is Aeon Group, the Japanese store concern, which holds 15 per cent of Laura Ashley and is its joint venture partner in Japan.

Mr Andrew Higginson, Laura Ashley's finance director, said the disposal was part of the group's policy of returning to its core business.

The proceeds could help accelerate capital expenditure plans, including doubling the number of European stores to 120.

The improvement at the lossmaking US subsidiary was continuing, he said. Revman would continue to sell Laura Ashley bed linen, the best selling brand in the US, under licence.

Last year Laura Ashley's share of Revman's profits came to more than £2m.

Uncertainty is the only certainty

Heron bondholders meet again on interest deferral. Maggie Urry reports

Only one thing is certain when Heron International's bondholders meet again this morning to vote on a deferral of bond interest. This time there will be a quorum.

When they first met, on March 31, holders of only 35 per cent of the bonds voted. The quorum was 50 per cent. Today the quorum is only two bondholders.

The conclusion of the votes, though, is by no means sure. A yes vote would mean that the interest payment, which was due on March 31, would be deferred to June 30. But there is a strong chance that bondholders will vote no.

However, a no vote has become almost irrelevant to Heron. Events at Mr Gerald Ronson's property and trading group have moved on since it originally warned bondholders in March of a "significant potential for cross defaults" if they did not vote in favour of the deferral.

After the March 31 meeting Heron was technically in default on the bonds. But investors did not require the trustee to take action for early payment of the bonds and the Heron empire did not collapse.

Instead, Heron is embroiled in another full scale restructuring of its balance sheet, only months after the completion, last September, of a refinancing of its then £1.4bn of debts, which included a swap of some bank debt into equity, and the replacement of other bank debt and existing bonds with new bonds.

Inevitably, the second restructuring must bring more equity into the group. Mr Basil Vasiliou, who chairs Vasiliou & Company, a New York debt trader which, with other Wall Street houses, reckons to speak for about 20 per cent of the senior bondholders, argues that "the solution is very apparent".

He advocates swapping all Heron's remaining debt into equity, and then arranging a listing for the shares which would provide liquidity for lenders seeking a cash exit.

However, bank lenders are unlikely to find that an attractive route. Many banks still have both a philosophical and a balance sheet problem with taking equity, even though in Heron's case senior bank lenders have already had 70 per cent of their debt exchanged for equity and can now see their remaining senior debt trading at about 45p in the pound.

A listing could take some time to arrange, and might not be possible until 1996 or 1997, although some off-market transactions, for example allowing banks to sell shares to institutions, could take place first.

A less attractive, but more likely solution, is that a bidder comes in to buy all the group's debt and equity. Heron's preferred option seems to be that a bidder would provide a cash exit for those lenders wanting to realise and give others a continuing equity interest in the group.

A bid is likely to be worth substantially less than the 70p in the pound of assets which Heron has to cover its £300m of senior debt, and nearer the 45p where that debt is trading. But it would be more than the 30p or so that a receiver might recoup.

Gerald Ronson: group's future should soon be secured

As one interested party observes: "Cash is always more persuasive than equity in a bank's short-time horizon", and cash of 45p now might be more attractive to banks than 70p in the medium term, and the possibility of even more later.

UBS, Heron's adviser, is understood to have found good interest among a range of potential bidders from venture capitalists to wealthy property investors. Already some are said to be doing due diligence investigations and Heron is believed to be confident that a firm offer will be available for board consideration by the end of May.

That should enable proposals to be put to creditors by the end of June.

Whether or not the present management would be kept on by a new owner is another matter, though many creditors, Mr Vasiliou included, are supportive of Mr Ronson and his team.

With the prospect of a bid in view, a no vote at today's meeting would not result in bondholders demanding action from the trustee.

Rather, bondholders are tempted to vote against the deferral as a protest at the behaviour of one of Heron's groups of bank lenders.

These are the lenders to the Heron Corporation (HCP) subsidiary which are seen to be obstructing the passing of £70m of cash in HCP to the "head office" company which would more than pay the bondholder's interest.

These lenders, of which about half are also lenders to the "head office" group, have a right to complete repayment of their loans before any cash is "upstreamed" to the parent.

The 40 HCP lenders are enforcing this right, although HCP has assets reckoned to be worth at least twice its debts, and the lenders have already been repaid substantial amounts early. These include £150m paid last November which was due in March this year, and a £57m payment last week of £160m due next March.

While Heron's future should soon be secured, some doubt must remain while groups of creditors with differing interests continue to fight in public.

Powell Duffryn unwinds Spanish joint venture

Powell Duffryn and its partner CEPSA have sold Proquimica, their joint chemical storage business venture in Barcelona, Spain, to Terminales Portuarias for Pta2.09bn (about £10m).

The sale follows CEPSA's strategic decision not to maintain an investment in chemical storage facilities in the future.

The company, which also owns bulk storage facilities in the UK, US, Australia and South Africa, intends to reinvest the proceeds in upgrading and extending the range of services offered through its other storage activities.

Mr Bill Andrews, Powell's chief executive, said that CEPSA's decision to withdraw "led us to conclude that our bulk liquid storage activities would be better served by redeploying resources to our other terminal locations, rather than increasing our investment in Barcelona".

Govett Oriental assets rise

Surging Pacific stock markets during 1993 led to a 52 per cent rise in net asset value per share at Govett Oriental Investment Trust over the year to March 31, writes Bethan Hutton.

The figure grew from 262.07p to 397.63p, but more than half of that rise was achieved by the interim stage. Falls in most Asian markets since the start of 1994 have limited second half growth.

Available revenue was £2.34m (£2.54m), for consolidated earnings of 1.3p (1.41p) per share. A proposed final dividend of 0.75p makes a 1.15p (0.95p) total.

As at end-March, 31.8 per cent of the trust's assets were in Japan, compared to 25 per cent six months earlier.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Elswick	fin	0.18	June 30	0.15	0.33	0.3
GBE Intl	fin	1.25	-	0.5	1.25	0.5
Govett Oriental	fin	0.75	July 1	0.55	1.15	0.95
Jove Inv Trust	fin	3.9♦	May 31	2.8	6.8	5.6
Mezzanine Cap	fin	7.25	July 20	7.25	16.75♦	13.75
Silentnight	fin	5.25	July 1	5.75	8	8

Dividends shown pence per share net. ♦Includes special.

TENDER NOTICE

UK GOVERNMENT ECU TREASURY BILLS

For tender on 10 May 1994

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 10 May 1994. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England for the account of the Exchange Equalization Account.

2. The ECU 1,000 million of Bills to be issued by tender will be dated 13 May 1994 and will be in the following maturities:
ECU 200 million for maturity on 16 June 1994
ECU 500 million for maturity on 11 August 1994
ECU 300 million for maturity on 10 November 1994

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, Threadneedle Street, London not later than 10.30 a.m., London time, on Tuesday, 10 May 1994. Payment for Bills allotted will be due on Friday, 13 May 1994.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with ESO, Euroclear or CEDEL, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Friday, 13 May 1994 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005516 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1989, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of that Information Memorandum (as supplemented).

9. The ECU 50 million of Bills to be allotted directly to the Bank of England for the account of the Exchange Equalization Account will be for maturity on 10 November 1994. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England
3 May 1994

COMPANY NEWS: UK

Manchester United's non-football activities have a growing importance. **Tim Burt** reports

Reds launch an attack on off-field operations

On May 8, more than 44,000 of the faithful will file into Old Trafford to watch one of Britain's more successful small companies at work.

When Manchester United takes the field for its last home game of the season, all minds will be concentrated on football, its core business.

But for the directors watching that afternoon's clash with Coventry City, the Reds represent much more than a talented squad dominated by Eric Cantona, Ryan Giggs and Andrei Kanchelskis.

It has become a multi-layered business in which turnover from gate receipts has been outstripped by secondary income from merchandising, television, sponsorship, the conference business and catering.

Underlining their growing importance to the club, these non-footballing activities helped lift first-half profits by 65 per cent to £7.6m.

Together they contributed more than £12m to turnover which rose 75 per cent to £22.8m in the six months to January 31.

While the fans savour the prospects of the double – adding the FA Cup on May 14 to the Premiership won earlier this week – the board has turned its mind increasingly to off-field activities which, it believes, could safeguard the company's finances should the team be hit by a run of poor form, injuries and failure to succeed in cup competitions.

That risk is minimised primarily by season ticket sales, which swell the club's coffers in the July before each season. Following the completion of the £10.3m Stretford End stand, boasting 49 boxes and 864 club class seats, the portion of advance sales has increased sharply and helped lift average turnover for each home game from £580,000 to £767,000.

Non-season ticket receipts, meanwhile, have been matched by sales from other sources such as catering, programmes and merchandise.

Mr Robin Launders, finance director, believes the growth of non-core activities, including financial services, sets Manchester United apart from almost every other football club.

Their year-round contribution offsets the seasonal aspect of the footballing business and generates profits long after the players have hung up their boots.

All this enables the board to estimate, conservatively, what the company will earn each season. It can calculate receipts from the guaranteed number of home games, likely television distribution revenue, and profits on sponsorship, royalties and merchandise.

It allows Manchester United – one of three quoted clubs – to set aside a portion of after-tax earnings for its transfer fee reserve – essentially a pot of distributable cash for buying and selling players.

"We always budget for the worst scenario: that we are hovering near the relegation zone and have failed in the cup competitions," says Mr Launders. "It's then that we would fall back on the transfer fee reserve to rebuild the team."

Profit from cup competitions can, therefore, be treated as exceptional gains which can be used to top up the reserve and increase the club's ability to buy new players.

The size of those profits will be substantially boosted next season by inclusion in the European Cup competition – the Continent's premier championship.

Seeded along with the likes of AC Milan and Ajax, Italian and Dutch champions respectively, the club will accrue the benefit from three home ties in the league stage, along with about £500,000 from UEFA. A reasonable run in the competition could bring in about £2m.

Mr Launders regards the prospect as a virtuous circle, which will prompt increased demand for season tickets and non-core products such as videos, souvenirs and even financial services.

"If we can play football in an attractive way which wins competitions it is a boon.

"We already have a guaranteed income, but if we can persuade more people to support us it creates spin-off benefits for our other businesses."

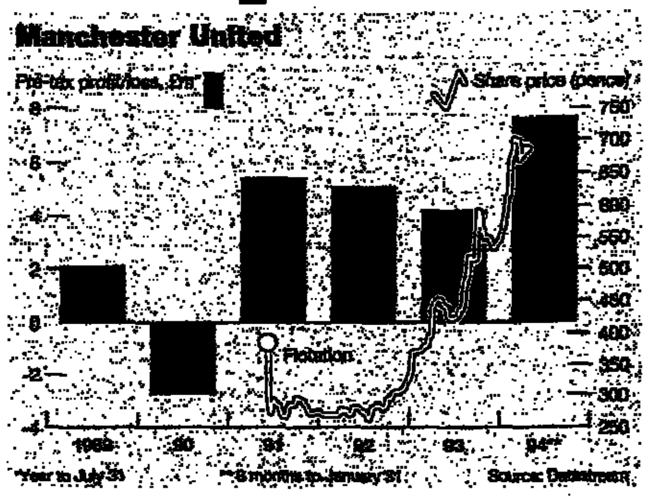
So far this year, success on the field and lucrative sideline businesses have left the club with a transfer fee reserve increased from £2.25m to £3.25m.

It has also generated £5.9m net cash which, true to his conservative financial principles, Mr Launders has invested mostly in gilt-edged stock. He says such investments not only give the club fixed interest rates, but 48-hour access to funds should it need a large sum to buy a player.

More importantly, it gives Manchester United financial stability in a notoriously uncertain industry.

"We're in a unique position compared with most clubs," he says. "New businesses like wholesaling have brought in more revenue and we don't need to borrow to buy new assets.

"It shows we are still a football team but we're prepared to seize every financial opportunity which comes out of that."




Ryan Giggs: key member of the United team chasing the double

NEWS DIGEST

Elswick focuses on core areas

Elswick reported pre-tax losses of £1.48m in a year of increasing focus on its core areas of specialised print and packaging and agrochemicals.

The outcome for the 12 months to end-January, struck after a restatement of £5.59m of goodwill written off in prior years, came from turnover up by £3.7m to £54.2m and compared with a profit of £1.91m.

The restatement of goodwill arose on the disposal of Bomford Turner, sold for £7.7m last November, which helped to eliminate net borrowings.

At the operating level, profits rose by 23 per cent from £2.88m to £3.55m, of which £1.35m came from discontinued operations.

An exceptional provision of £400,000 was made at the year end in connection with surplus leasehold properties, compared with a £248,000 gain last time.

Interest charges were cut from £971,000 to £536,000.

Losses per share emerged at 1.14p (0.78p earnings) and a final dividend of 0.18p is proposed, making 0.33p (0.3p) for the year.

Charles Letts shows £785,000 profit

In its first results since being bought by its management, Charles Letts Group, the diary maker which has undergone refinancing and restructuring, announced a pre-tax profit of £785,000 for the year to January 31 1994.

The outcome compared with a restated loss of £7.51m. Turnover was £26.6m (£29.9m).

GBE Intl rises 18% to £2.8m

Profits of GBE International, the engineering equipment group formerly known as Downiebrae, rose by 18 per cent to £2.8m pre-tax over the year ended December 1993.

Turnover expanded from £34.7m to £37.4m while earnings per share improved from 3.06p to 3.82p.

The single dividend is lifted from 0.5p to 1.25p.

Orders anticipated in the last quarter failed to materialise and this was expected to affect operations during the opening half of 1994.

However, those orders had now been received and with a good order book at good margins directors expected the second half performance to be "excellent".

Nevertheless, the shares closed 8p lower at 68p.

Jove Investment net asset value at 66.99p

Jove Investment Trust reported net asset value per capital share of 66.99p at February 28, compared with 38.38p a year earlier.

Net revenue for the year to end-February was £1.01m (£841,226) for earnings per income share of 7.12p (5.94p). A second interim dividend of 2.9p (2.8p) is declared, which with a special dividend of 1p makes a total for the year of 6.8p (5.8p).

Deficit for Premium Underwriting

As promised in its prospectus, Premium Underwriting issued a progress report yesterday showing pre-tax losses at £32,442 for the initial period to February 28.

The prospectus statement expected costs to exceed income until 1997 when Lloyd's results for 1994 were declared and paid.

Although it was too early to make predictions of the underwriting results for 1994, the directors believed the year had "started satisfactorily".

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 04.05.94: Pool purchase price £/MWh	Final Prices for Trading on 03.04.94: Pool purchase price £/MWh	Final Prices for Trading on 03.04.94: Pool selling price £/MWh
0030	10.87	16.70	16.70
0100	10.87	10.83	10.83
0130	10.90	18.98	18.98
0200	10.91	31.00	33.80
0230	10.91	50.98	53.76
0300	10.91	50.98	53.76
0330	10.87	50.98	53.78
0400	10.87	50.98	53.76
0430	10.87	39.01	41.81
0500	10.85	32.35	35.15
0530	10.86	16.90	16.90
0600	10.90	16.90	16.90
0630	11.15	23.63	26.43
0700	12.70	30.30	33.10
0730	21.20	31.15	33.94
0800	21.44	31.92	34.72
0830	21.92	45.23	48.03
0900	21.92	45.23	48.03
0930	21.93	45.23	48.03
1000	21.93	45.23	48.03
1030	21.93	33.20	36.00
1100	21.93	33.20	36.00
1130	24.92	33.20	36.00
1200	36.06	33.20	36.00
1230	36.04	33.20	36.00
1300	36.02	33.19	35.99
1330	24.88	33.12	35.92
1400	21.85	31.77	34.57
1430	21.44	31.77	34.57
1500	21.44	31.77	34.57
1530	21.44	31.77	34.57
1600	21.44	31.77	34.57
1630	26.02	31.77	34.57
1700	41.51	31.77	34.57
1730	41.50	31.77	34.57
1800	41.50	31.77	34.57
1830	26.01	32.20	35.00
1900	21.44	30.34	33.14
1930	21.44	30.34	33.14
2000	21.44	29.99	32.79
2030	12.70	45.05	47.85
2100	21.44	49.00	51.80
2130	29.50	49.00	51.80
2200	29.80	43.53	46.33
2230	20.29	45.05	47.85
2300	21.20	29.45	32.24
2330	11.98	23.63	26.43
2400	11.10	17.00	17.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Prices. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-455785 between 8:30am and 5:15pm Monday to Friday.
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Budget fears dampen Silentnight sales

By Andrew Bolger

The change to a November Budget hindered recovery in the UK furniture market, according to Silentnight Holdings, Europe's biggest manufacturer of beds.

The Lancashire-based group said retailers found that the run-up to the chancellor's package in November created financial uncertainty during what had historically been its main selling season, before Christmas.

It added: "The announcement of tax increases to take effect in April undoubtedly hit consumer confidence and had a dampening effect on sales."

Silentnight, which issued a profits warning in March, yesterday reported a 3 per cent increase in pre-tax profits to £12.4m in the year to January 29. Sales rose by 9 per cent to £167m.

Mr Bill Davies, executive chairman, said: "There have been few tangible signs yet of an improvement in the UK furniture market."

He added that the sale of big-ticket price items was very sensitive to changes in consumer sentiment, particularly in the middle to lower end of the market, although the top end was more stable.

The group's UK beds business experienced significant margin pressure and profits declined, although sales rose by 2 per cent to £101m.

Mr Davies said the production of Silentnight beds was being concentrated in one factory, with the existing plant at Sutton being closed. This would involve the loss of about 70 jobs at a cost of £750,000, which would fall in the current year.

Sales in the UK cabinets business rose by 15 per cent to £43m and profits also increased. Silentnight continued to invest about half its capital expenditure of £3.7m (£8.8m) in the cabinets business, which increased its estimated share of the UK market from 5 per cent to 6 per cent. The group's share of the UK bed market was stable at 32 per cent.

The group said overseas businesses had continued to improve. Its German manufacturer of beds and mattresses, bought in 1992, contributed sales of £12.5m and continued to provide a good return. The previously lossmaking US subsidiary was now breaking even.

Earnings rose to 17.62p (17.14p). A 0.5p cut in the final dividend to 5.35p maintains the total at 8p. Mr Davies said this was intended to restore the one-to-two balance between interim and final payments, reflecting the group's strong seasonal bias to the second half.

● **COMMENT**

While accepting the Budget posed a particular problem last year, analysts were surprised the group gave such a downbeat view on the trading outlook. One asked whether the continuing pressure on margins meant the strategy of having several brands in the mature market for beds was fundamentally flawed. Whether or not it signals any more rationalisation, the combining of the Silentnight plants will hit first-half profits. There is also irritation that the group will not identify the profits contribution from cabinets, in which it has been investing heavily. Forecast pre-tax profits put the shares, unchanged yesterday at 204p, on a prospective multiple of 16.1 – a 5 per cent premium to the market, which looks high enough.

Substantial increase to A$76m at ICI Australia

By Nikki Tait in Sydney

ICI Australia, the quoted Australian company in which Imperial Chemical Industries holds a majority interest, reported a sharp increase to A$76.4m (£36.7m) in profits after tax for the six months to end-March.

The outcome compared with A$48.4m last time, struck before abnormal items of A$10.6m. There were no abnormal charges in the latest set of figures.

ICI attributed the upturn to a 7 per cent volume increase, control of costs and a reduction in interest charges, down from A$19m to A$13.9m.

In divisional terms, the chemicals business saw trading profits little changed at A$49m (A$50m), with demand healthy but caustic soda prices depressed.

The plastics division incurred a reduced loss of A$6m (A$12m) as it continued to struggle against low world prices.

Trading profits from fertilisers and crop-care rose from A$8m to A$15m, while the consumer and effect products division contributed A$76m (A$56m).

ICI added that "while prices generally seem likely to remain low and competition keen, result for the full year should satisfactorily exceed 1993 if the improved business climate is maintained".

The interim dividend goes up from 7 cents to 11 cents.

The company also revealed that a decision is likely to be reached this week on whether to proceed with the construction of a A$200m-plus ethane pipeline, linking South Australia's Cooper Basin with ICI's ethylene plant at Botany Bay.

ICI said that negotiations over terms for the supply from the South Australian gasfields were at a critical stage and that the timing necessitated a decision this week, although an announcement might not be made immediately.

BTR spins off Dartington

Crystal gazing – Mr Eric Dancer (left), managing director of Dartington Crystal, and Mr Russ Cummins of 3i, reflect on the future of the giftware and tableware producer which has been purchased by its management from BTR in a £10m deal, writes Peter Franklin.

Under the terms of the transaction, which is backed by 3i, the venture capital group, BTR's Rockware Group received £4.71m for the sale of its 95 per cent holding as well as repayment of £3.25m in loans.

The Dartington Hall Trust, which founded the company in 1967 to create employment in north Devon, has also sold its 5 per cent holding.

In addition, Dartington Crystal will receive £2m from the deal to fund future growth plans.

Mr Cummings said that his company had led, structured and underwritten the transaction, while Bank of Scotland was providing debt and working capital.

Murray Johnstone launches smaller companies trust

By Bethan Hutton

Murray Johnstone is seeking up to £60m with the launch of Murray Acorn, an investment trust concentrating on the smallest end of the smaller company range.

The trust will invest in companies with a market capitalisation of £50m or less, and principally those of less than £30m. Up to 10 per cent of the fund may be invested in unquoted companies, mainly those in a pre-listing phase. Special situations, such as management buy-ins or refinancings, may account for up to 30 per cent.

Shares will be issued at 100p on a partly-paid basis, with 50p due when the public offer closes on June 16, and the balance due on November 30. This is to allow a more gradual investment of the fund in what can be an illiquid market.

There are several smaller-company investment trusts listed in London, but most invest in much larger companies than Murray Acorn's planned targets, often having market capitalisations of up to £300m. However, two relatively new trusts, Pilot and Eaglet, have similarly low-cap limits.

Murray Acorn will be aiming mainly for capital growth rather than income, and will take the Extended Hoare Govett Smaller Companies Index (excluding investment trusts) as a benchmark.

● Shirescot, the Shires High-Yielding Smaller Companies Trust, managed by Glasgow Investment Managers, is hoping to expand by up to £25m with a placing and offer for subscription of conversion shares. The shares will be issued at 100p and on conversion, which will take place by October 14 at the latest, warrants will be attached on a 1-for-5 basis. The public offer is due to open on May 16, closing on June 7. First dealings are expected on June 15.

Compass turns to France for growth

By David Blackwell

Compass Group, the catering and healthcare company that last week announced plans to buy Canteen Corporation, the third largest US caterer for $450m (£308m), yesterday switched its attention to France.

It is acquiring, through Scandinavian Service Partner, its European airport catering arm, the airport restaurant division of Saresco for £10.7m cash.

The business's main contract is with Charles de Gaulle Airport in Paris, although it also operates at Strasbourg and Toulon.

It has 28 restaurants and bars and made pre-tax profits last year of FFr3m (£350,000) on turnover of FFr127m.

Assets were about £4.5m at the year end, including net cash of £2m.

Mr Fritz Ternofsky, chief executive of Compass's European catering operations, described the acquisition as an "ideal first step for the group in France".

Compass surprised the City with its US acquisition plans last week. Mr Francis Mackay, chief executive, said the group would continue to expand organically in Europe.

Thos Cook expands by 25% to £31.6m

Thomas Cook, the travel and financial services group which is owned by Westdeutsche Landesbank, increased pre-tax profit by 25 per cent to £31.6m in 1993, writes Michael Skapinker.

The increase came in spite of the continental European recession, companies cutting business travel costs, and low interest rates which depressed travellers' cheque earnings.

Revenues rose 22 per cent to £595.6m.

Mr Christopher Rodrigues, chief executive, said leisure travel proved resilient in most markets. He said holidays were "now considered an essential, not a luxury, for people throughout the developed world".

Mr Rodrigues added that business travel, by contrast, was going through a big change as companies sought ways of reducing costs.

There was evidence of increased demand for business travel as companies come out of recession, but this, he said, remained a highly competitive market.

NEWS DIGEST

Management buy-out at GB Glass

GB Glass, the Doncaster-based glass and lighting components maker jointly owned by Osram and Thorn EMI, has been bought by its management for £25m with backing from 3i, the venture capital group.

For the 1993 year GB Glass returned pre-tax profits of £3.1m on sales of £66m, more than half of which were to export markets.

3i is leading a syndicate of investors, including Prudential Venture Managers, to provide £9m of equity and mezzanine debt. Senior debt and overdraft facilities were provided by Midland Bank.

Exceptional lifts CRP Leisure

After an exceptional credit of £529,655 following a loan waiver, CRP Leisure produced pre-tax profits of £245,726 for the year to October 31 from turnover of £644,732.

This compared with FRS 3 adjusted losses of £1.21m last time, from turnover on continuing operations of £993,150.

Earnings per share were 1.5p (losses 11.4p).

Gartmore European net assets ahead

Gartmore European Investment Trust raised net asset value per share by 11 per cent to 151.4p at March 31, against 136.3p six months earlier.

Net losses for the six months came to £194,000 (£77,000) giving a deficit per share of 1.13p (0.38p). At present, the company estimates positive earnings for the year.

The trust reaffirmed its policy that dividends were of secondary importance to capital growth and future payments would be paid out of earnings. Last year's final was 0.9p.

New Guernsey Securities assets rise

New Guernsey Securities Trust reported net asset value per share of 123.3p at December 31, against 102.9p a year earlier.

Pre-tax profits for 1993 were £28,191 (£26,197) for earnings per share of 1.1p (1p). An initial final dividend of 1p is recommended.

Low & Bonar makes disposal in US

Low & Bonar, the international packaging and materials group, has sold Bonar Fabrics, its non-wovens business in South Carolina, to HDK Industries of Tennessee for $2.7m (£1.84m) cash.

The sale completes the group's exit from this business sector following the closure of its Scottish plant in 1993.

COMMODITIES AND AGRICULTURE

London coffee futures surge past $1,600 mark

By Alison Maitland

Coffee prices surged 5 per cent to fresh five-year highs on the London Commodity Exchange yesterday, surprising even bullish traders by the speed of the rise.

The continued tightness of physical supplies, coupled with a shortage of stocks, pushed the July second position for robusta futures to a peak of $1,655 a tonne. A buoyant opening in New York helped London maintain most of its gains, with the July contract closing $80 up from Friday's close at $1,643.

In early afternoon trading in New York, the second position arabica contract was 3.80 cents higher at 93.65 cents a pound.

Yesterday's surge through $1,600 in London came less than two weeks after the July contract broke the $1,500 barrier and put it 37 per cent up on the year so far. The market is at its highest level since mid-1989.

Growing interest in soft commodities among investment funds looking for diversification is helping to fuel a market driven by a lack of readily available robusta from west Africa and Indonesia and falling consumer stocks, said one trader.

"It's a little bit of everything," he said. "But even so the severity and speed of the move, particularly today, is surprising." Buying came from the trade as well as chartists and funds. "There were just no sellers around from the beginning."

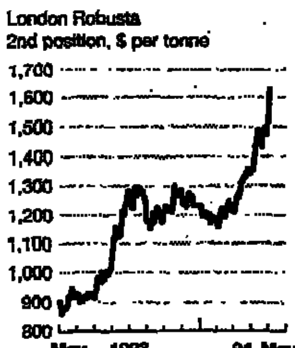
The continued squeeze on short positions was reflected in the nearby May contract's $57 premium over July. But Mr Lawrence Eagles, analyst at GNI, the London brokers, pointed out that July was at a growing premium to September, "which means people think this tightness could last through till then."

The fact that the world price for robusta has now reached the level where export stocks can been released appears to be having little effect. The Association of Coffee Producing Countries is not due to discuss the release of stocks until a meeting on May 23.

● The LCE yesterday reported a 41 per cent rise in volume in April compared with March, with 333,874 contracts traded. That reflected more active physical markets and growing investment fund interest, it said.

Coffee

London Robusta
2nd position, $ per tonne



Source: Datastream

Copper price rise forecast

By Kenneth Gooding, Mining Correspondent

Copper is benefiting from rising European demand, analysts suggest, and prices should be sharply up in the last quarter of 1994.

The market may see a supply deficit of 225,000 tonnes this year and of 350,000 tonnes in 1995, according to Mr Fred Demler, analyst with the E.D & F. Man commodities group.

"This builds a case for volatile and rising prices, despite the large increase in primary output [expected] in 1995," he adds. Man in its latest metals markets review is forecasting copper prices averaging 95 cents a pound in the final quarter of this year.

Merrill Lynch is even more bullish and says $1 a pound is "not an unreasonable objective" while 83 cents seems to be the bottom of the trading range. Merrill says in its Weekly Futures Report that the second quarter could see some prices weakness develop but so far "demand from Europe has taken some of the pressure off the inevitable slowing of US demand. We believe that the potential correction in copper prices will not be as great as some are anticipating".

European copper consumption rose about 4 per cent above late-1993 levels at the beginning of this year, Bloomsbury Minerals Economics points out in its Copper Briefing Services. The turn-round in the automotive industries of the UK, France and Spain was the most important factor.

Mr Peter Hollands of BME says that the most important source of uncertainty is China. However, he guesses that light Chinese selling may occur every time the copper price nears 90 cents and there may be speculative buying when it falls below 85 cents.

"Two-way Chinese trade might keep the price within a fairly narrow range for some time," he adds.

Nevertheless, BME suggests the copper price will bottom out at 83 to 85 cents in the next few weeks, then will trend slowly upwards through October to about 90 cents and "thereafter there looks likely to be scope for rapid price increases towards $1 a pound".

Charges reduced for Chile's Codelco three

By Jason Webb in Santiago

Santiago's Court of Appeals on Monday ordered the release from prison of three former sales executive's of Codelco, the state-owned Chilean mining group, and drastically reduced charges against them over futures trading operations that resulted in losses of US$207m.

Mr Juan Pablo Davilla, Codelco's former chief futures operator, is now charged with causing the company losses by deception, which carries a maximum sentence of 541 days in prison. His two immediate superiors are now charged with being accomplices, for having failed to keep a check on his activities, and face a maximum sentence of 66 days.

Previous charges against all three of having defrauded the state were dropped because Codelco workers are not classified as public employees for penal purposes, although the company is 100 per cent state-owned. Those charges could have resulted in five-year sentences, as well as hefty fines.

None of the three was had to put up bail as the new charges were not considered sufficiently serious. Mr Davilla had been in custody since March 11 and the others since April 8.

Codelco, which lost $13m after tax in 1993, compared with a $303m profit in 1992, no longer trades futures.

Foreign miners not ready to invest in China

Progress has been made on liberalisation, but more is needed, writes Tony Walker

When representatives of some of the world's leading mining companies gathered in Beijing earlier this year for a minerals forum there was more than usual interest in China's *proposals for a new regulatory regime governing foreign investment.*

China's mining sector has lagged well behind others, including notably oil and gas, in efforts to attract foreign involvement. Foreign investment and with it new technology is now critical to China if it is to make up for lost time in exploiting its mineral deposits to support a rapidly developing economy.

Senior executives of companies like Teck Exploration of Canada, and CRA and BHP of Australia came away encouraged by what they had heard from Chinese officials. But to the question of whether they would commit large resources to exploration in China their response was: "Not yet".

Mr Ian Gould, responsible for CRA's exploration worldwide, provided a typical industry view of China prospects at this stage. "China is very much one of the countries we are monitoring carefully," he said. "But it is not quite at the point where CRA might be prepared to come in."

However, mining executives and academic experts involved in the minerals forum organised by the Pacific Economic Co-operation Council, which is sponsored by Pacific Rim countries, said China was making definite, albeit relatively slow, progress in clearing away barriers to foreign involvement.

For the first time, according to Mr Gould, *Chinese officials* had begun speaking publicly about a specific "contract of work" for mining ventures that would help facilitate negotiations *that might otherwise* become bogged down under cumbersome state mining legislation.

Among regional countries, Indonesia has used the "contract of work" approach to good effect in attracting foreign investment. Foreign miners believe the Chinese should follow the Indonesian model.

Mr Fu Mingke, deputy director of the Ministry of Geology's development bureau admitted in an address to the forum that a 1986 mining law was now "incompatible" with China's own market-oriented economy. It was also "incomparable" with mining laws internationally.

He acknowledged that the framing of a mining law would be complex and time-consuming, and therefore in the meantime China would "develop a standard investment agreement [or contract]. . . as a document supplemental to the mining regulations".

Mr Allen Clark, *assistant* director of Resources Programmes at the East-West centre in Hawaii, said there had been a "very substantial change" in *China's* basic approach to opening the country to foreign miners.

The country still had some way to go, however, before it could be regarded as an appealing location. Indications that the government was planning a "resources tax" of up to 30 per cent suggested that the Chinese were not yet ready to fall into line internationally on standard royalties of between 1 and 5 per cent.

Mining companies entering China now might be liable to an effective tax rate of 45 to 55 per cent, including taxes on profits and other levies, compared with an international average of 30 to 40 per cent.

China, according to Mr Clark, was also mistaken in its *apparent strategy of offering* marginal projects to foreign miners rather than "greenfield" sites. Chinese officials, fearful of criticism that they *might be selling out the country's birthright*, are excessively concerned about a foreign miner happening upon a high-grade and very profitable deposit.

But in the end, foreign mining experts believe, enormous pressures on the mining sector from the China's leadership to *provide more of the country's* base metal and other mineral requirements will inevitably force speedier liberalisation.

Mr James Dorian, co-ordinator *of the China Energy Project* at Hawaii's East-West Centre, pointed out at the forum that while China's mining industry ranked fourth in the world in *output* value, it was operating well below its potential. China, in fact, had a "very low" per capita production of metals and minerals.

Billions of dollars were required, Mr Dorian said, to modernise the industry, which was suffering from "numerous problems", including low efficiencies in recovery, production and utilisation, outdated mining equipment and technology and severe transportation bottlenecks.

He added, however, that companies interested in business opportunities in China would need to "remain flexible and patient" in seeking to understand not only the industry, but the "often confusing" bureaucratic systems.

"The planned expansion and modernisation of China's mining industry will require tremendous influx of foreign technology and financing," he said. "Firms that are able to establish a successful track record today in China may be able to reap more substantial rewards in the long term."

MARKET REPORT

Aluminium breaks stubborn resistance

ALUMINIUM and COPPER prices closed firmer at the London *Metal Exchange yesterday* and looked set to clock up further gains, dealers said.

Aluminium finally broke through stubborn resistance *just above the $1,320 level, for* three months delivery, and finished at the highs, with final business at $1,328, a $25 gain from last Friday's after hours "kerb" close.

"This is a very good close, and should bring in some further buying," one trader said.

Copper lost some impetus in the *afternoon, but remained* underpinned by earlier speculative buying, and was content to hold just below the $1,970 level, prior to another attempt *to break overhead resistance*, dealers suggested.

Other metals traded less actively, but were generally supported by the overall *upward trend.*

LEAD advanced steadily in the afternoon, confirming a break above the $470-a-tonne level for the three months posi*tion, which finished at the* day's high of $474, a $9 gain from pre-weekend levels.

ZINC matched other metals, and was supported on dips *towards $950 a tonne.* Final business was at $953, up $5.

TIN prices were steadier throughout but were unable to attain a $5,500-a-tonne upside *target for three months delivery* and the market eased back from the highs.

PRECIOUS METALS trading was mildly weaker after the *New York markets opened qui*etly and below previous closing levels. There was little obvious reaction to the continuing vote count in South Africa, which showed the ANC, as expected, winning a clear majority.

PLATINUM saw some profit-taking mid-afternoon taking it back to under $400 a troy *ounce and paring weekend* gains.

COCOA prices picked at the London Commodity Exchange in the afternoon in response to *investment fund buying in New York*. Near July closed £26 firmer at £885 a tonne.

One trader said the latest traders' commitments report *showed investment funds still* had plenty of room to get into the market. But a volume of 5,249 lots, including 1,163 cross trades, reflected the fact that *this was not a move generated* in London, he added.

Compiled from Reuter

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1292-3	1317.5-8.5
Previous	1281-2	1306.5-7
High/low		1326/1307
AM Official	1294-4.5	1319-20
Kerb close		1327-9
Open int.	248,408	
Total daily turnover	41,993	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1310-5	1315-20
Previous	1315-25	1320-5
High/low		1320
AM Official	1310-5	1315-20
Kerb close		1315-20
Open int.	4,087	
Total daily turnover	489	

■ LEAD ($ per tonne)

Close	457-8	473.5-4
Previous	454-5	469-70
High/low		475/467
AM Official	453-4	469-9.5
Kerb close		474-5
Open int.	33,883	
Total daily turnover	8,388	

■ NICKEL ($ per tonne)

Close	5515-25	5590-5
Previous	5520-5	5590-5
High/low	5535	5630/5590
AM Official	5530-5	5610-5
Kerb close		5615-20
Open int.	57,983	
Total daily turnover	10,526	

■ TIN ($ per tonne)

Close	5375-80	5440-50
Previous	5395-405	5460-70
High/low		5460/5445
AM Official	5393-8	5460-5
Kerb close		5440-50
Open int.	17,164	
Total daily turnover	3,013	

■ ZINC, special high grade ($ per tonne)

Close	931-2	953-4
Previous	932-3	953-4
High/low	927.5	954/950
AM Official	927-8	950-0.5
Kerb close		950-1
Open int.	101,572	
Total daily turnover	13,443	

■ COPPER, grade A ($ per tonne)

Close	1947-8	1964-5
Previous	1936.5-7.5	1952-3
High/low	1951/1950	1975/1955
AM Official	1950.5-1	1967-8
Kerb close		1966-9
Open int.	182,723	
Total daily turnover	87,375	

■ LME AM Official £/$ rate: 1.5109
LME Closing £/$ rate: 1.5130
Spot:1.5135 3 mths:1.5084 6 mths:1.5060 9 mths:1.5084

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open Int	Vol
May	93.30	+0.20	93.35	92.65	7,771	11
Jun	93.25	+0.30	93.25	93.25	1,607	23
Jul	93.35	+0.25	93.40	92.55	37,545	379
Aug	93.00	+0.15	-	-	427	7
Sep	92.80	+0.10	92.70	91.95	8,677	7
Oct	92.40	+0.05	-	-	201	10
Total					63,295	678

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	375.10-375.50	
Opening	376.00-376.40	
Morning fix	375.70	248.479
Afternoon fix	375.10	248.509
Day's High	376.50-376.90	
Day's Low	375.10-375.50	
Previous close	376.80-376.30	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.62	6 months	4.00
2 months	3.71	12 months	4.60
3 months	3.78		

Silver Fix	p/troy oz.	US cts equiv.
Spot	349.95	528.75
3 months	354.15	534.00
6 months	358.65	540.35
1 year	368.50	554.50

Gold Coins	$ price	£ equiv.
Krugerrand	381-384	252-255
Maple Leaf	385.75-388.15	-
New Sovereign	88-91	58-61

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open Int	Vol.
May	375.6	-0.6	-	-	-	-
Jun	376.8	-0.6	377.5	375.8	92,168	15,694
Jul	378.1	-0.6	-	-	-	-
Aug	379.5	-0.6	379.9	378.7	12,222	951
Oct	382.5	-0.5	383.0	381.5	5,119	108
Dec	385.6	-0.5	386.3	384.7	14,216	1,348
Total					150,379	18,880

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	401.3	-4.5	408.0	400.0	17,199	3,869
Oct	403.3	-4.5	404.5	403.0	2,359	162
Jan	404.4	-4.5	406.0	406.0	843	3
Apr	405.8	-4.5	405.0	405.0	982	71
Total					21,383	4,105

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	141.10	-1.05	142.00	140.10	3,725	1,062
Sep	140.85	-1.30	142.00	140.00	1,163	419
Dec	140.65	-1.30	141.75	140.00	467	169
Mar	140.35	-1.30	-	-	6	5
Total					5,361	1,670

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

May	523.7	-6.1	529.5	523.0	3,417	1,264
Jun	525.4	-6.3	534.0	532.5	5	-
Jul	528.0	-6.3	533.5	526.0	84,692	11,071
Sep	532.5	-6.3	537.0	530.0	7,992	118
Dec	539.6	-6.3	545.5	538.0	11,416	226
Jan	541.6	-6.3	-	-	32	-
Total					128,330	12,742

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open Int	Vol
Jun	16.85	-0.31	17.19	16.83	125,951	58,225
Jul	16.70	-0.24	16.95	16.70	67,467	25,903
Aug	16.67	-0.17	16.84	16.66	33,287	10,979
Sep	16.66	-0.12	16.80	16.65	23,637	6,963
Oct	16.70	-0.07	16.79	16.68	17,862	3,613
Nov	16.70	-0.06	16.80	16.70	11,898	2,021
Total					420,964	120,174

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open Int	Vol
Jun	15.48	-0.21	15.65	15.47	75,386	26,442
Jul	15.40	-0.16	15.67	15.40	46,125	10,367
Aug	15.42	-0.08	15.58	15.42	16,027	1,645
Sep	15.47	+0.02	15.55	15.41	11,108	1,038
Oct	15.49	+0.05	15.56	15.45	4,920	274
Nov	15.51	+0.03	15.56	15.45	3,709	20
Total					163,599	40,080

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open Int	Vol
Jun	47.05	-0.52	47.65	47.00	47,905	11,632
Jul	47.50	-0.45	47.80	47.45	32,840	4,341
Aug	48.20	-0.20	48.37	48.15	13,316	721
Sep	49.30	-0.25	49.50	49.15	10,627	410
Oct	50.35	-0.15	50.40	50.25	6,821	183
Nov	51.10	-0.25	51.10	51.10	5,393	563
Total					143,662	20,810

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open Int	Vol
May	150.25	+2.00	152.00	150.25	25,030	4,959
Jun	150.25	+2.50	151.25	150.00	24,669	4,333
Jul	150.75	+2.00	152.00	150.75	16,814	1,524
Aug	152.50	+2.25	153.00	152.00	6,948	258
Sep	154.00	+2.50	154.25	153.25	5,638	287
Oct	156.50	+2.75	156.50	155.75	5,806	212
Total					105,366	12,279

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open Int	Vol
Jun	2.005	-0.004	2.020	1.985	16,679	13,159
Jul	2.032	-0.011	2.050	2.030	12,672	4,240
Aug	2.057	-0.014	2.071	2.050	10,437	1,272
Sep	2.090	-0.005	2.105	2.090	10,672	729
Oct	2.140	-0.005	2.150	2.135	6,936	423
Nov	2.225	+0.002	2.240	2.223	9,662	289
Total					110,415	21,288

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open Int	Vol
Jun	49.60	-0.87	50.60	49.60	52,687	11,646
Jul	50.05	-0.65	50.50	50.05	21,803	3,345
Aug	50.10	-0.48	50.35	50.00	11,614	1,668
Sep	49.50	-0.53	49.80	49.50	7,962	315
Oct	48.10	-0.32	48.10	48.05	1,438	50
Nov	47.00	-0.57	47.00	47.00	2,116	4
Total					98,648	17,653

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open Int	Vol
May	114.70	+0.70	114.75	114.75	493	7
Jun	114.75	+0.55	114.75	114.50	1,042	100
Sep	97.90	+0.70	97.75	97.50	501	34
Nov	98.85	+0.85	98.75	98.10	1,649	130
Jan	100.75	+0.80	100.65	100.10	972	121
Mar	102.40	+1.15	-	-	324	-
Total					5,089	402

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	330/0	-2/0	333/2	329/4	4,945	4,300
Jul	330/0	-4/6	334/4	329/4	144,855	56,810
Sep	333/2	-3/6	337/4	332/4	31,105	4,355
Dec	343/4	-4/6	347/0	341/4	34,626	9,920
Mar	345/2	-4/2	349/0	344/4	1,975	30
May	341/2	-4/2	-	-	120	-
Total					218,086	75,520

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	261/6	-7/4	267/6	260/6	76,880	63,235
Jul	264/6	-7/0	269/6	263/4	680,520	177,050
Sep	258/4	-8/2	263/0	256/0	165,810	23,620
Dec	247/2	-8/2	252/0	247/0	373,525	66,760
Mar	254/2	-8/0	257/4	253/6	34,295	1,825
May	258/6	-7/6	260/0	258/4	3,840	116
Total					1.350M	323,215

■ BARLEY LCE (£ per tonne)

May	109.50	+0.50	-	-	56	-
Sep	97.65	+0.65	-	-	136	-
Nov	99.50	+0.70	-	-	165	-
Jan	100.50	-	-	-	30	-
Mar	101.65	-	-	-	5	-
May	103.75	+0.60	-	-	5	-
Total					399	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	662/6	-7/0	669/0	661/0	43,830	33,260
Jul	663/0	-6/6	669/4	661/0	330,095	183,025
Aug	658/6	-6/6	665/0	657/0	56,535	6,870
Sep	638/4	-6/0	644/0	636/6	32,485	2,405
Nov	622/0	-5/6	629/0	619/0	211,810	40,215
Jan	627/6	-5/4	635/0	627/0	14,750	1,170
Total					707,480	268,076

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	28.40	-0.30	28.73	28.30	6,760	2,220
Jul	28.34	-0.29	28.67	28.18	40,021	11,215
Aug	28.03	-0.25	28.30	27.88	11,787	764
Sep	27.44	-0.26	27.70	27.30	11,285	576
Oct	26.47	-0.33	26.70	26.40	8,160	589
Dec	25.69	-0.29	25.95	25.58	15,233	1,772
Total					98,892	17,441

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	187.1	-1.5	188.6	186.7	4,740	5,037
Jul	188.4	-1.0	189.3	187.7	38,493	15,122
Aug	187.8	-1.1	188.7	187.5	12,431	1,398
Sep	186.6	-0.7	187.5	186.1	7,932	466
Oct	184.8	-0.4	185.2	184.1	5,045	287
Dec	183.6	-0.3	184.2	182.8	15,143	1,409
Total					86,572	23,880

■ POTATOES LCE (£/tonne)

May	252.3	-4.7	251.0	245.0	310	25
Jun	262.5	-	-	-	2	-
Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	132.8	+1.8	133.5	132.0	488	27
May	140.0	-	-	-	-	-
Total					798	52

■ FREIGHT (BIFFEX) LCE ($10/index point)

May	1400	+11	1400	1400	869	21
Jun	1298	+12	1300	1290	508	88
Jul	1200	+15	1200	1190	603	16
Oct	1298	+13	1295	1295	271	10
Jan	1345	+3	-	-	144	-
Apr	1363	+28	-	-	10	-
Total					2,495	135

	Close	Prev
BFI	1429	1414

Minor Metals
European free market, from Metal Bulletin, $ *per lb in warehouse, unless otherwise stated* (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 2,200-2,300 (2,040-2,100). Bismuth: min. 99.99%, tonne lots 2.25-2.40. Cadmium: min. 99.5%, 75-85 cents a pound. Cobalt: MB free market, 99.8%, 24.00-25.00 (24.80-25.50); 99.3%, 18.80-19.50 (20.30-20.80). Mercury: min. 99.99%, $ per 76 lb flask, 80-100. Molybdenum: drummed molybdic oxide, 3.15-3.25 (3.10-3.20). Selenium: min 99.5%, 3.60-4.55. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 33-45. Vanadium: min. 98%, cif, 1.35-1.45. *Uranium: Nuexco exchange value*, 7.00.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open Int	Vol
May	858	+30	855	835	1,576	848
Jul	885	+26	886	865	21,900	2,999
Sep	906	+25	905	885	14,062	710
Dec	931	+30	931	910	19,024	487
Mar	953	+29	953	933	27,226	148
May	965	+26	948	948	10,195	50
Total					104,865	5,249

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1160	+23	1160	1134	414	177
Jul	1168	+23	1172	1138	39,730	8,927
Sep	1191	+21	1195	1163	14,010	640
Dec	1230	+21	1231	1202	8,808	304
Mar	1264	+21	1259	1235	10,678	171
May	1294	+21	1287	1270	4,903	100
Total					82,555	10,319

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Apr 29 Daily	872.55	868.47
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

May	1699	+84	1719	1654	3,972	391
Jul	1642	+79	1655	1580	18,366	3,881
Sep	1614	+80	1625	1564	11,477	2,734
Nov	1601	+73	1614	1559	4,628	1,025
Jan	1593	+76	1602	1562	5,717	111
Mar	1581	+76	1580	1580	1,962	23
Total					46,182	8,191

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	93.95	+4.15	94.20	92.25	1,204	146
Jul	94.05	+4.20	94.40	92.10	34,344	5,634
Sep	94.25	+3.90	94.60	92.40	11,171	1,545
Dec	95.05	+3.90	95.25	93.15	6,034	1,030
Mar	95.30	+3.65	95.60	93.90	2,424	78
May	95.90	+3.40	96.25	94.25	352	6
Total					56,563	8,439

■ COFFEE (ICO) (US cents/pound)

May 2	Price	Prev. day
Comp. daily	86.48	86.03
15 day average	82.28	81.89

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jul	11.73	-0.15	-	-	2,829	-
Oct	11.64	-0.14	11.68	11.68	292	500
Jan	11.82	-	-	-	-	-
Total					3,166	500

■ WHITE SUGAR LCE ($/tonne)

Aug	324.40	-2.60	325.00	323.50	9,991	689
Oct	309.00	-2.00	309.60	309.00	6,913	513
Dec	303.70	-2.30	305.00	305.00	306	1
Mar	300.70	-1.80	302.00	301.00	1,001	13
May	301.00	-1.50	302.50	302.50	198	2
Aug	304.30	-2.00	-	-	215	-
Total					18,638	1,218

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.50	-0.03	11.60	11.46	50,569	7,429
Oct	11.35	-0.01	11.41	11.30	32,043	2,691
Mar	11.14	-0.02	11.18	11.09	16,149	539
May	11.14	-0.02	11.18	11.14	2,381	15
Jul	11.12	-0.02	-	-	1,197	10
Oct	11.10	-0.02	11.12	11.12	344	-
Total					102,722	10,884

■ COTTON NYCE (50,000lbs; cents/lbs)

May	86.38	+1.53	86.50	84.60	1,697	293
Jul	84.08	+0.91	84.15	83.22	27,031	6,225
Oct	76.17	+0.72	76.30	75.60	4,676	397
Dec	73.80	+0.74	73.80	73.05	17,349	2,308
Mar	74.95	+0.65	74.75	74.00	1,348	159
May	75.05	+0.95	75.10	74.25	626	59
Total					52,825	9,441

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	104.00	-1.80	106.00	104.00	1,056	324
Jul	106.25	-2.20	108.95	105.75	13,002	1,369
Sep	108.50	-1.50	110.90	108.25	2,403	151
Nov	108.25	-2.00	111.00	109.50	1,126	82
Jan	109.50	-1.75	111.25	109.50	2,274	96
Mar	112.00	-2.50	113.90	111.00	642	31
Total					20,524	2,054

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

May 3	May 2	month ago	year ago
1846.3	(c)	1826.8	1667.7

■ CRB Futures (Base: 4/9/56=100)

May 2	Apr 29	month ago	year ago
225.36	223.16	226.02	209.95

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open Int	Vol
Jun	69.275	-1.125	70.350	69.025	31,039	6,987
Aug	68.375	-0.825	69.175	68.025	13,542	3,449
Oct	70.675	-0.775	71.475	70.400	11,839	2,417
Dec	71.250	-0.750	72.000	70.875	7,081	806
Feb	71.250	-0.750	72.000	71.250	2,532	282
Apr	72.500	-0.700	73.200	72.400	1,024	83
Total					67,138	17,872

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	51.050	+0.575	51.100	50.425	16,473	2,492
Jul	50.900	+0.700	50.950	50.150	5,910	1,002
Aug	48.700	+0.375	48.750	48.150	3,422	444
Oct	44.200	+0.425	44.300	43.625	2,527	278
Dec	44.400	+0.400	44.400	43.650	2,759	149
Feb	44.250	+0.300	44.350	43.600	496	51
Total					32,085	4,448

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	49.025	+1.175	49.150	47.500	450	614
Jul	49.350	+0.750	49.500	48.050	6,192	2,061
Aug	47.475	+0.625	47.600	46.275	1,632	316
Feb	51.700	+0.450	52.300	51.400	257	92
Mar	50.800	+0.100	50.800	-	20	2
May	52.850	+0.050	52.850	52.550	14	2
Total					8,565	3,087

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1300	51	86	26	36
1325	27	71	37	46
1350	27	59	51	58

■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1900	88	115	22	42
1950	58	86	41	63
2000	35	63	67	88

■ COFFEE LCE	Jul	Sep	Jul	Sep
1500	160	154	18	40
1550	123	122	31	58
1600	91	95	49	81

■ COCOA LCE	Jul	Sep	Jul	Sep
875	33	61	23	30
900	21	48	36	42
925	13	37	53	56

■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1400	-	-	3	-
1450	-	-	6	-
1500	66	-	9	29

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jun)		+or-
Dubai	$14.16-4.29y	+0.16
Brent Blend (dated)	$15.84-5.86	+0.275
Brent Blend (Jun)	$15.64-5.66	+0.205
W.T.I. (1pm est)	$16.96-6.98	+0.17

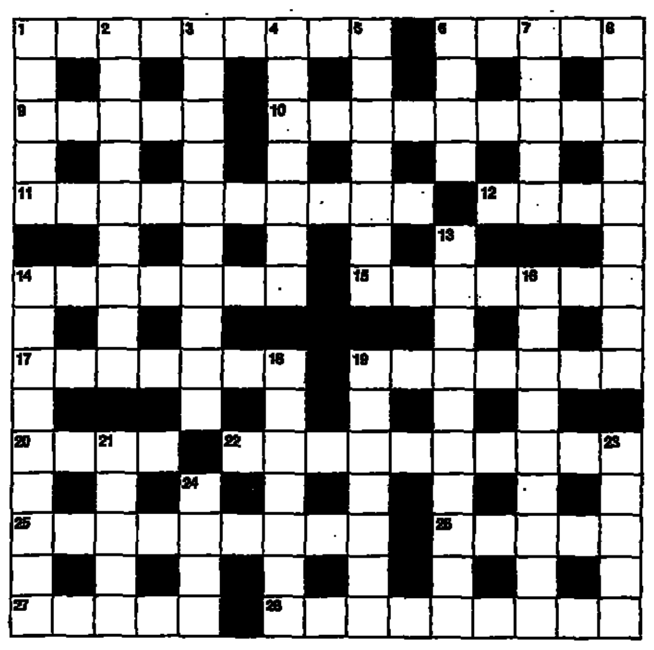
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$175-177	+2.0
Gas Oil	$151-152	+2.0
Heavy Fuel Oil	$79-80	
Naphtha	$149-151	+2.5
Jet Fuel	$182-184	+2.0
Petroleum Argus Estimates		

■ OTHER		
Gold (per troy oz)♣	$375.30	-0.80
Silver (per troy oz)♣	524.50c	+5.00
Platinum (per troy oz.)	$400.80	+6.75
Palladium (per troy oz.)	$139.80	+3.15
Copper (US prod.)	97.00c	+1.00
Lead (US prod.)	35.00c	
Tin (Kuala Lumpur)	14.36r	-0.17
Tin (New York)	250.50c	
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	125.48p	+0.34*
Sheep (live weight)†♣	148.23p	+6.67*
Pigs (live weight)	74.83p	-2.83*
Lon. day sugar (raw)	$274.30	-7.70
Lon. day sugar (wte)	$330.00	-2.80
Tate & Lyle export	£293.00	-5.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	$139.5	
Wheat (US Dark North)	£160.0x	
Rubber (Jun)♥	70.50p	
Rubber (Jul)♥	70.75p	
Rubber(KL RSS No1 Jun)	254.00m	-2.00
Coconut Oil (Phil)§	$692.5z	
Palm Oil (Malay.)§	$475.0y	
Copra (Phil)§	$375.0	
Soyabeans (US)	£213.0	-1.0
Cotton Outlook A Index	88.10c	+0.40
Wooltops (64s Super)	402p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z May/Jul. y Jun. w May. † May/Jun. x Apr/May. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,444 Set by DINMUTZ



ACROSS

1 Needed to garage a car that is guaranteed (9)
6 Round, soil swelling (5)
9 Left with a £1 note, he has no close friends (5)
10 Five-mile course from which people watched the bay? (9)
11 *Manifestly, fragrant cargo* placed behind peacocks (10)
12 Tiny sandbanks in river (4)
14 Boast of British and American glory (7)
15 St Paul, a sort of blade? (7)
17 Overdose in hallucinatory effects of drug, but still stands! (7)
19 Highlight for drivers . . . . (7)
20 . . . . . hooters not banned after dark? (4)
22 Stimulating, elite Irish coterie (10)
25 *Honey-dish broken, as in a* romp (9)
26 Principal eastern state? (5)
27 *Notedly slow longboat* (5)
28 Blunders and flukes (9)

DOWN

1 Wild country to borrow, we hear (5)
2 These buttercups uncurl in a storm (9)
3 *Treatment from psychoanalyst for tar allergy?* (10)
4 Potter, perhaps, an illegal bowler (7)
5 Medical attendants caught indoors (7)
6 Call it a day and retire with plenty of money? (4)
7 Such an edict brings a sea-change to the United Kingdom (5)
8 Weapon of personnel supporting President Eisenhower? (9)
13 Washers many ruled out *before noon (10)*
14 Plight of Albert, hot, in a fever? (9)
16 *Getting rid of Dutch, say* (9)
18 In films one fires all over the place, with high frequency (7)
19 Almstrong rested, with companion, on one half of moon (7)
21 Hen? Yes, if held in both hands (5)
23 Fancy part of brogues solidly built (5)
24 Object of the lady's love? (4)

Solution to Saturday's prize puzzle on Saturday May 14.
Solution to yesterday's prize puzzle on Monday May 16.

LONDON STOCK EXCHANGE

MARKET REPORT

Bonds weakness drives Footsie down to 3,100

By Terry Byland, UK Stock Market Editor

Weakness in sterling and in UK government bonds left the FT-SE 100 Index down 25 points yesterday, and struggling to hold on to the 3,100 support level. Trading volume was not heavy but the announcement that Britain's MO money supply jumped by an annualised 6.2 per cent in April emphasised the market's growing fear that the next move in domestic interest rates could be up, rather than down. Losses in long-dated gilts were extended to nearly two points in late trading, and the investment mood turned significantly bearish.

The bears justified yesterday's downturn by pointing to the UK local elections to be held tomorrow, at which Mr John Major's government is widely expected to suffer a setback. As always, political nervousness was more marked in the foreign exchange markets than in domestic equities.

These factors combined to set an unhappy background to this morning's routine meeting between the chancellor of the exchequer and the Governor of the Bank of England. The surge in money supply is likely to increase the Bank's caution towards any suggestion of cutting UK interest rates at present.

Early deals brought a rash of gains in share prices as London hoped that the closure of Japanese markets for the Golden Week might lift the pressure from the US dollar. But initial firmness in stock index futures quickly disappeared when the money supply figures were announced, and from then on, the equity market unravelled steadily, with the stock index futures at a discount for much of the session.

Account Dealing Dates		
*First Dealings: Apr 25	May 16	Jun 6
Option Declarations: May 12	Jun 2	Jun 16
Last Dealings: May 13	Jun 3	Jun 17
Account Day: May 23	Jun 13	Jun 27

*New time dealings may take place from two business days earlier.

London tried to rally when Wall Street opened but, with the Dow Industrial Average uncertain and down 2.37 in UK hours, there was little to help the Footsie resist renewed losses in gilts.

The FT-SE Index was 25.3 down at 3,100 exactly, having rallied from 3,095.8 at the day's low. The Footsie has been jousting with the 3,100 support level since the middle of March and traders sounded unconvinced last night that this important benchmark level would be held if bond markets continued to slip.

The wider market, less closely linked to the futures contract, performed somewhat better than the blue chip sectors and the FT-SE Mid 250 Index fell only 5.8 to 3,775.3.

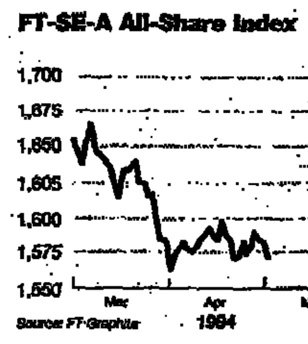
The market setback was all the greater in that the pharmaceutical shares, which are heavily weighted in index terms, were in good form following news of nearly $8bn in acquisition deals in the US by leading multinational companies. SmithKline Beecham jumped sharply after paying $2.3bn for Diversified Pharmaceutical Services of the US, hard on the heels of the £5.3bn purchase of Syntex by Roche.

The renewed focus on company takeovers kept the spotlight on Lasmo, although the shares continued to weaken behind its predator, Enterprise Oil, which is bidding in paper;there was little immediate reaction to a formal offer document from Enterprise.

Trading volume increased as share prices gave ground, but the final total of 559.4m shares traded through the Seaq network was still below Friday's figure. Several trading programmes were identified.

Traders drew little comfort from the moderate turnover, however, and the market closed on a distinctly unhappy note, with the domestic scene clouded over by prospects for sterling and the international scene by those for the US dollar/yen rate.

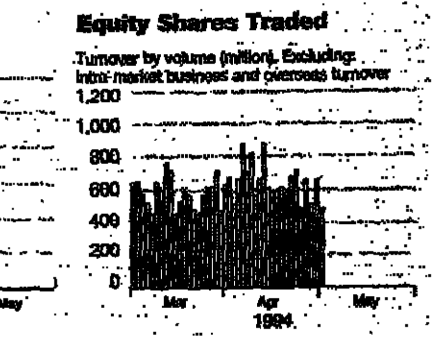
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3100.0	-25.3	FT Ordinary index	2494.1	-11.7
FT-SE Mid 250	3775.3	-5.8	FT-SE-A Non Fins p/e	20.49	(20.57)
FT-SE-A 350	1577.9	-10.4	FT-SE100 Fut Jun	3091.0	-48.0
FT-SE-A All-Share	1570.95	-9.49	10 yr Gilt yield	8.15	(7.94)
FT-SE-A All-Share yield	3.69	(3.67)	Long gilt/equity yld ratio:	2.25	(2.21)

Best performing sectors		Worst performing sectors	
1 Pharmaceuticals	+3.3	1 Tobacco	-2.3
2 Other Services & Bens	+1.2	2 Banks	-2.3
3 Health Care	+0.5	3 Life Assurance	-1.7
4 Consumer Goods	+0.4	4 Gas Distribution	-1.5
5 Other Financial	+0.4	5 Water	-1.4

Gas up on broker meetings

A series of broker-hosted meetings between Ms Clare Spottiswood, director-general of Ofgas, the gas industry regulator, and many of the Scottish institutions saw British Gas shares the most heavily traded of the FT-SE 100 constituents.

Gas shares, one of the FT-SE 100's worst performers last week after the group issued a profits warning at its annual meeting, fell 4¼, or 1.5 per cent, to 281½p yesterday compared with a 0.8 per cent decline in the Footsie. Turnover in Gas reached 13m shares.

Dealers said the stock had attracted hefty selling by US institutions late last week but that much of that had been countered by keen support from UK-based income funds.

There was also increasing nervousness among dealers ahead of the politically sensitive joint Department of Industry/Ofgas report on the structure of Gas, expected next Monday. A second report, prepared by Ofgas, dealing specifically with stock market sensitive areas such as rate of return and pricing formulae, is expected at the end of this month.

Reuters active

News and financial information group Reuters Holdings was the most significant casualty in the basket of leading UK stocks as a large trade added to pressure on the shares following weekend press comment.

Dealers said the shares were restrained in early dealing in reaction to negative comment in the Sunday press. Then, in mid morning, securities house James Capel found a buyer and a seller for 2.3m shares and crossed the block at 513p. Also, the SEAQ trading screen showed a block of 4m shares traded at 515p on the official close.

News that Liffe and the DTB, the UK and German futures exchanges were in final negotiations over Globex, Reuters derivatives product, came too late to prevent the shares falling 24½ to 507p on exceptionally heavy turnover of 13m.

SmithKline deal

Pharmaceuticals group SmithKline Beecham jumped 6.5 per cent in a falling market as early US support was fuelled by news that the company was making a $2.3m (£1.57m) acquisition in the US. The shares were easily the best performers in the FT-SE 100 and led the pharmaceutical sector higher. The 'A's gained 25¼ to 415p on turnover of 7m and the Units, which tend to reflect US interest, leapt 28 to 384p with 10m traded.

The purchase of Diversified Pharmaceutical Services (DPS) is expected to enable the company to compete more effectively with Merck of the US, which has recently bought MedCo.

SmithKline said the acquisition would result in earnings dilution of around 3 per cent this year and be earnings enhancing after that. It is funding the purchase by the issue of commercial paper and existing cash reserves and analysts were enthusiastic. Mr Paul Krikler of Goldman Sachs, the US house which is advising DPS's former owner said it represented "nothing less than a breathtaking example of a bold and creative management" and Mr Paul Woodhouse at Smith New Court "It is a good move. DPS is the pick of the bunch."

The move enlivened a sector desperately in need of some focus after months of depressing news. And it followed a slight shift of focus on Friday and a $5.3bn agreed bid on Monday. The bid by Roche of Switzerland for Syntex of the US was considered expensive but whetted the market's appetite for further moves. Perennial speculative targets Fisons and London International group rose a penny to 155p and 8 to 112p respectively. Heavily sold Wellcome bounced 23 to 547p and hard hit Glaxo recovered 11½ to 588p.

The oil majors were hit by a flurry of US selling as many transatlantic investors locked in profits ahead of first quarter results from both BP and Shell.

Shell, now the UK's biggest company measured by market capitalisation, slid 10 to 713p after turnover of 4.7m shares. BP, scheduled to announce results tomorrow, and whose shares hit an all-time closing high of 399p last week, fell 4 to 392p on turnover of 7.4m.

The Lasmo takeover saga rumbled on with oil sector specialists noting the market's continuing dissatisfaction with Enterprise's all-paper bid and with Enterprise's strategy. "Although it's early days in the bid timetable, there is definitely a feeling that Enterprise may already have blown its chances," said one analyst. A counter offer is still expected by many oil sector observers. Lasmo slipped 1½ to 148p on turnover of 7.3m shares and the nil-paids ½ to 44p on 4.6m traded. Enterprise fell 6 to 410p.

Credit Lyonnais Laing was said to have been the driving force behind the weakness in Abbey National, which fell 9 to 427p.

Hong Kong-sensitive banks received a rough ride following a steep overnight fall in Hong Kong stocks. HSBC plunged 27 to 679p. Standard Chartered settled 36 off at 959p.

Water and electricity sectors came under renewed fire as dealers took fright at the latest big slide in gilts and on the prospects of a local election hammering for the Tories in tomorrow's elections.

A series of presentations in the City were said to have lifted Upton and Southern, the ambitious regional retailer, 2 to 32p.

Stores analysts were speculating over the scale of write-offs set to be announced by WH Smith and Boots for their Do It All home improvement subsidiary, expected shortly. The interest was sparked by weekend press comment, but reports in some newspapers of an £80m provision found little support. The consensus is that the two groups will make provisions of nearer £55m and announce the closure of around 50 of the 220 Do It All sites.

Around half those earmarked for closure are thought to have been sold to other retail groups, including Asda, Dixons for its PC World stores, and furniture and bedding company Staples. Boots shares advanced on the back of the day's pharmaceutical activity, the shares closing 5¼ forward at 553p. Smith slipped 2 to 496p.

Dixons slid 7 to 200p following the company's decision to treat its interest in Fretter of the US as a fixed asset investment. There were also said to be negative comments from Hoare Govett and Morgan Stanley. Asda shares were steady at 55¼p.

MARKET REPORTERS: Steve Thompson, Chris Price, Peter John.

■ Other statistics, Page 24

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (91). BLDG MATLS & MCHTS (3) Johnston, Kingspan, St. Gobain, CHEMICALS (3) Akzo, Allied Colloids, Courtaulds, DISTRIBUTORS (3) Adams & Harvey, Brammer, ELECTRNC & ELECT EQUP (3) ENGINEERING (5) ASW, Chamberlin & Hill, Dominick Hunter, SKF, Vickers, ENG VEHICLES (2) Daimler-Benz, Volvo B, EXTRACTIVE INDS (2) Anglo Amer. Coal, Saltonstein, INVESTMENT TRUSTS (3) LEISURE & HOTELS (2) Chrysalis, Pollcan, MEDIA (3) MERCHANT BANKS (1) Rea Bros., OIL EXPLORATION & PROD (1) Ex. Co. Louisiana, OIL, INTEGRATED (1) Petrofina, OTHER FINANCIAL (1) Paramba, OTHER SERVS & BUSNS (1) Caird 7p Prf. 2002, PRTNG, PAPER & PACKG (1) Low & Bonar, RETAILERS, GENERAL (3) Austin Reed, Liberty, Do NV, Moss Bros, Signet, SUPPORT SERVS (1) Serco, TEXTILES & APPAREL (1) Alexandra Workwear, TRANSPORT (1) Seafield, AMERICANS (2) SOUTH AFRICANS (2)

NEW LOWS (146). GILTS (26) OTHER FIXED INTEREST (5) BANKS (6) BUILDING & CNSTRN (3) AMEC 6.5p Prf., Barcom, Berkeley, BLDG MATLS & MCHTS (6) CHEMICALS (1) Wardle Storeys, DISTRIBUTORS (1) Diploma, DIVERSIFIED INDLS (3) Hutch. Whmp., Pacific Dunlop, Williams 8p Prf., ELECTRICITY (6) Eastern, London, National Power, Northern, Norweb, Scott. Power, Southern, Yorkshire, EXTRACTIVE INDS (13) FOOD MANUF (2) Canadian Pizza, Sims, INSURANCE (1) HCG Lloyds, INVESTMENT TRUSTS (20) INVESTMENT COMPANIES (6) LEISURE & HOTELS (1) Mandarin Oriental, LIFE ASSURANCE (2) Legal & General, Prudential, OIL EXPLORATION & PROD (2) Energy Equity, Pan Pacific, OIL, INTEGRATED (1) Exxon, OTHER FINANCIAL (3) Henderson Admin., M. & G., Mercury Asset Mgmt., OTHER SERVS & BUSNS (1) Cape Range, PHARMACEUTICALS (2) Grampian, Proteus Int., PROPERTY (6) RETAILERS, FOOD (3) Swiss Bros., Kwik Save, Tesco Cap. 9pc Cv. 2005, RETAILERS, GENERAL (5) Coles Myer, SUPPORT SERVS (2) Cedardale, Virtualtity, TELECOMMUNICATIONS (1) TOBACCO (1) WATER (10) AMERICANS (3) CANADIANS (3)

EQUITY FUTURES AND OPTIONS TRADING

Weakness in sterling and gilts, higher than anticipated money supply figures together with political uncertainty in the UK combined to cast a shadow over the derivatives sector, writes Joel Kibazo.

In futures, traders initially attributed the poor opening in the June contract on the FT-SE at 3,129 to a "correction" after Friday's strong finish. Light buying in the first hour saw the contract touch 3,140 but this faded after the release of the money supply data. The figures were higher than anticipated, increasing doubts about a further reduction in UK interest rates.

The decline of sterling and the retreat in bonds increased the selling pressure, as did nervousness about the outcome of tomorrow's local elections in the UK. It left June to trade at a substantial discount to cash for a large part of the session. Monument Securities and Goldman Sachs were said to have been among the day's main sellers.

June closed at 3,091, down 43 on its previous close. Volume was 12,878. The June mid 250 contract finished at 3,760 after trade of 101 lots.

Traded options were particularly dull with a mere 21,119 lots dealt by the close. Volume in the FT-SE 100 option was 6,818 contracts and 1,547 in the Euro FT-SE 100 option. HSBC was the most active stock option with a total of 2,163 lots dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3129.0	3091.0	-48.0	3140.0	3080.0	12878	52267
Sep	3123.0	3109.0	-48.5	3123.0	3109.0	105	717
Dec		3120.5	-48.0			0	210

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3750.0	3760.0	-30.0	3765.0	3750.0	101	3575

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3770.0	3770.0	-	3770.0	3770.0	12	901

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3100) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	4,800	55¼	-¼
Abbey National†	2,700	427	-9
Albert Fisher	1,100	67	-1
Allied-Lyons†	1,200	579	-8
Anglian Water	205	480	-9
Argos	1,000	388	+1
Argyll Group†	4,700	228	-2
Arjo Wiggins†	865	313	-2
Assoc. Brit. Foods†	808	602	+5½
Assoc. Brit. Ports	184	277	-2
BAA†	805	967½	-9½
BAT Inds.†	5,400	459	-10½
BET	2,400	127	+3
BICC	870	463	+1
BOC†	1,200	708	+4
BP†	7,400	392	-4
BPB Inds.	2,800	334	+4
BT†	6,500	367½	-1
BT (F/Paid)	1,800	249	-2
BTR†	10,000	394	-2½
Bank of Scotland†	1,300	184	-½
Barclays†	1,200	504	-7
Bass†	1,400	565	-6
Blue Circle†	2,800	298	-3
Booker	213	408	+1
Boots†	1,000	553	+5½
Bowater†	1,100	471	+11
Brit. Aerospace†	702	488	-1
British Airways†	2,300	425½	-2
British Gas†	13,000	281½	-4¼
British Land	192	405	
British Steel†	5,200	153	
Bunzl	1,600	192	-1
Burmah Castrol†	271	844	+6
Burton	1,800	58½	+2
Cable & Wire†	2,700	444	-6
Cadbury Schweppes†	522	479	
Calor Group	34	333	
Caradon†	1,200	345	-8
Carlton Comms.†	1,300	902	-9½
Coats Viyella†	614	238	-1
Comm. Union†	338	547	-2
Cookson	1,000	279	
Courtaulds†	619	578	+2
Dalgety	8	458	
De La Rue†	210	923	-½
Dixons	756	200	-7
Eastern Elect.	653	574	-4
East Midland Elect.	553	549½	-6½
Eng China Clays	305	465	+3
Enterprise Oil†	1,100	410	-6
Eurotunnel Units	56	494	-5
FKI	736	199	
Fisons	1,000	155	+1
Foreign & Col. I.T.	503	140½	
Forte†	1,000	234	-2½
[illegible]	[illegible]	[illegible]	[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jul	Oct	Jan	Puts Jul	Oct	Jan
Allied-Lyons	540	48	55½	–	14	20½	–
(*580)	580	17½	29½	–	38½	45½	–
Argyll	220	17½	22½	26	13½	16½	22
(*228)	240	8	13½	17½	26½	31	34
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT GOLD MINES INDEX

[illegible]

FT-SE Actuaries Share Indices

[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	65	7
Other Fixed Interest	0	3	12
Mineral Extraction	47	80	74
General Manufacturers	149	117	403
Consumer Goods	48	30	114
Services	91	83	332
Utilities	7	30	9
Financials	102	89	187
Investment Trusts	53	120	280
Others	64	38	28
Totals	562	674	1456

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	April 18	Last Declarations	July 28
Last Dealings	April 29	For settlement	Aug 8

Calls: AB Foods, Acorn Comp., Ashley Grp., Bula, Investment Co., Worth Inv. Tst.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£22⅛	—	£25⅝	£21⅞	6,463	5.1	ф
ANZ A$		216¼	-5¼	278¼	216¼	2,551	4.2	17.0
Abbey National	N□	427xd	-9	526	427	5,602	4.1	14.4
Allied Irish I£	♣N□	248xd	—	314	241	1,634	5.1	9.5
Anglo Irish I£	♣N□	55	—	*70	55	188.3	7.8	10.0
Asahi Y		710	+4¼	759¼	628	16,476	0.7	–
Banco Bil Viz Pta		£18½	-¼	£18¾	£14⅞	3,599	5.3	7.0
Banco Sant Pta		£31⅝	—	£34⅝	£28⅞	3,513	4.3	ф
Bk Ireland I£	♣xd□	270	—	*319	248	1,272	4.6	19.9
Bank Scotland	♣†□	184	-½	247	180	2,149	3.2	25.0
9¼pc Pf		118¾xd	-1	147½	118¾	118.8	9.7	–
9¾pc Pf		125xd	-1	148½	125	125.0	9.8	–
Barclays	♣N□	504xd	-7	640	487	8,185	3.8	20.9
Dai Ichi Kan Y		£12⅜	+⅛	£12⅞	£10⅜	38,891	0.4	68.6
Deutsche DM		£318⅝	+7⅝	£344¼	£297⅝	15,162	1.9	–
Espirito Santo		£18⅜	-⅛	£28⅞	£18¼	202.0	4.2	4.5
First Nat Fin	N□	75	+1	*90	60	124.3	2.5	–
6.3pc Cv Pf		83	—	*90	77	5.56	9.5	–
7pc Cv Pf		148	+1	171	123	70.2	5.8	–
Fuji Bank Y		1465¼	+10	1649¼	1152½	42,438	0.4	–
HSBC HK	□	700½xd	-25½	1133	700½	12,380	4.2	ф
HSBC (75p Shs)	□	679xd	-27	1113	679	6,744	4.3	ф
Lloyds	N□	575xd	-10	680	532	7,434	4.8	12.1
Mitsubishi Y		£17⅜	+⅛	£18⅞	£15⅝	50,069	0.3	–
Mits Tst & Bk Y		978¼	+6¼	1034¼	687½	12,738	0.5	15.7
Mitsui Tst & Bk Y		729¼	+5	811¼	514	8,702	0.7	24.7
Nat Aust A$		546¼	-12¾	620¼	537¾	7,285	4.3	11.3
NatWest	N□	442xd	-10	522	438	7,250	5.2	10.1
Ottomane FFr		£28	—	£30	£27¼	140.0	5.2	6.7
Ryl Bk Scotland	♣N□	339	-3	428	332½	3,180	3.4	18.0
Sakura Y		£9⅛	+⅛	£9⅞	£8⅛	29,833	0.8	56.4
Sanwa Y		£14⅜	+⅛	£16⅛	£11⅞	41,585	0.4	–
Standard Chartd	N□	959xd	-36	1437	959	2,301	3.1	10.5
7 3/8pc Prf		93¾	-1	109½	92¾	93.8	9.8	–
Sumitomo Y		£14⅛	+⅛	£19⅛	£11½	44,184	0.4	30.3
Sumitomo Tst Y		922½	+6¾	1009½	625	11,475	0.6	72.3
TSB	N□	210	-2½	281	209	3,213	4.6	14.3
Tokai Y		£8⅝	+⅛	£9⅛	£6⅞	16,479	0.7	54.3
Toyo Tst & Bk Y		762½	+5¼	784½	586¼	5,914	0.6	67.1

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

	Notes	Price	+ or -
AGA SKr		£36⅛	+¼
Akzo Fl		£81⅞	+2⅜
Allied Colloids	†N□	288	+2
Amber Ind	†N	705	—
BASF DM		£130⅞	-⅞
BOC	♣N□	709	+4
BTP	♣†N□	339	—
Bayer DM		£154⅜	-1⅞
Brent	N□	121½xd	-½
British Vita	N□	301xd	-5
Cambridge Iso S		22	—
Canning (W)	♣□	184xd	—
Carrentone	♣N	88	—
Warrants		43	—
Courtaulds	†N□	578	+2
Croda	N□	381xd	—
Doeflex	♣	130xd	+2
Engelhard $		£17⅛	—
European Colour	♣†□	46½	—
Gibbon Lyons		141	—
Hickson	♣N□	218xd	+1
Hoechst DM		£141⅜	-2½
Holliday Chemical	□	222xd	—
ICI	N□	819	-3
Inspec	□	210	—
Kalon	♣N□	191½	—
Laporte	♣N□	815xd	+1
MTM	♣□	73	-1
Manders	N	369xd	—
McLeod Russel	N□	118	—
Metrotect Inds	N□	112	—
Perstorp SKr		£28⅝	+⅛
Porvair	♣N	348	—
Scapa	♣†N□	247	—
Wardle Storeys	N□	415xd	-2
Wolstenholme	♣N	680xd	—
Yorkshire	♣N□	450	+5
Yule Catto	□	338xd	—

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£25½	—	£25½	£13½	1,829	2.9	18.6
Barlow		85⅛	-⅛	93⅛	£3⅞	894.1	8.5	9.2
Gold Flds Prop R		91	—	105	78	9.30	10.9	8.1
MK Props.	‡	90	—	95	87	3.82	9.9	37.0
SASOL	♥	382	+3	382	280	2,051	4.3	–
SA Brews		£14½	+⅛	£18⅞	£10	7,892	1.9	23.5
Tiger Oats		744	—	836	538	1,117	2.2	16.7
Tongaat-Hulett	†	612	+32	612	434	458.8	2.4	17.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by *Extel Financial*, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on late-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ✧ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ϕ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code **FT6216**. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availabilty.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the *FT Managed Funds Service.*

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Waverley Unit Tst Mngmt Ltd (1000)F
13 Charlotte Sq, Edinburgh 031-225 1551

Whittingdale Unit Tst Mngmt Ltd (0900)F
2 Honey Lane, London EC2V 8BT 071-600 0422

Woolwich Unit Trust Managers Ltd (1700)H
2 White Oak Square, Swanley BR8 7AG 081-298 4000

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Baring Investment Mngmt Ltd
155 Bishopsgate, London EC2M 3XY

CAF – Charity Money Management
48 Pembury Rd, Tonbridge TN9 2JD 0732 770114

CIM Unit Trust Managers Ltd

Cent. Bd. of Fin. of Church of England
2 Fore Street, London EC2Y 5AQ 071-588 1815

INSURANCES

Abbey National Life Plc
287 St Vincent Street, Glasgow 041 305 5000

Acuma Life Assurance Ltd
The Glanty, Egham, Surrey TW20 9AT 0784 476333

AEGON Life Assurance Co (UK) Ltd
AEGON Hse, Lanark Sq, London E14 9QS 071-538 5900

Century Life Plc
5 Old Bailey, London EC4M 7BA

Equitable Life Assurance Society

Hill Samuel Life Assur. Ltd - Contd.

London & Manchester Assurance (z)

National Westminster Life Assce Ltd

Prudential Assurance Co

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Scottish Equitable plc

28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	253.5	266.8	+0.6	-
UK Equity	236.2	248.6	+0.2	-
International	267.0	281.0	+1.7	-
American	244.9	257.8	+2.8	-
European	262.0	275.8	+2.8	-
Japan	252.3	265.6	+0.2	-
Pacific	373.6	393.1	-0.3	-
Technology	360.6	380.2	+4.0	-
Fixed Interest	169.4	178.3	-0.4	-
Index Linked	158.6	166.9	-0.1	-
Foreign Bond/Currency	227.5	239.5	+0.1	-
Cash	178.286	187.567	+0.049	-
Ethical	132.0	139.0	-0.1	-
Pens Mixed	742.3	781.3	+4.8	-
Pens UK Equity	815.8	858.5	+2.8	-
Pens International	641.5	675.2	+7.3	-
Pens Nth American	248.1	261.2	+3.6	-
Pens European	311.7	328.1	+3.8	-
Pens Japan	307.6	323.8	+1.3	-
Pens Pacific	471.1	495.9	-2.1	-
Pens UK Fixed Interest	361.6	380.6	+1.8	-
Pens Index Linked	197.7	208.1	-	-
Pens Cash	[illegible]	[illegible]	+0.132	-
Pens Property	245.41	258.39	-	-
Pens Ethical	171.9	180.9	+0.4	-
Edinburgh Inv	392.5	413.1	-0.1	0
Baillie Gifford Japan	265.0	278.9	-1.1	-
Pens Global	109.1	114.9	-	-
Pens Emerg Mkts	125.3	131.9	+1.2	-
Pens Overseas Bond	93.4	98.4	+0.2	-
Pens UK Smaller Cos	100.1	105.3	-0.1	-
Pens Latin America	79.6	83.7	-1.5	-

Scottish Life Investments

19 St Andrew Square, Edinburgh 031-225 2211

	Bid Price	Offer Price	+ or -	Yield Gross
Property	216.9	228.4	+0.1	-
UK Equity	349.3	367.8	-1.6	-
American	244.9	257.9	+0.1	-
Pacific	367.9	386.8	-0.8	-
European	495.1	521.3	+8.4	-
International	314.3	330.9	+0.7	-
Fixed Interest	230.5	242.7	-2.6	-
Index Linked	192.1	202.3	-0.9	-
Deposit	190.5	200.7	+0.1	-
Managed	284.4	299.5	-0.6	-
Worldwide	127.2	134.0	-0.1	-
With Profits Pens	90.8	95.7	-	-
Pens. Property	254.1	267.6	+0.2	-
Pens. UK Equity	419.3	441.5	-2.3	-
Pens. American	273.4	287.9	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sun Alliance Group - Contd.

[illegible]

Albany International Assurance Ltd

[illegible]

Royal Skandia Life Assurance Ltd

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE INSURANCES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

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FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	+ or -	Yield Gross
The Vietnam Fund Limited				
Lloyds Bank Fund Managers (Guernsey) Ltd				
NAV Fully Paid Mar 31	$10.94		—	—
NAV Partly Paid Mar 31	$4.70		—	—
WW Capital Growth Fund				
NAV Mar 31	$1026.80		—	—
Wellington Fd Mngrs (Bermuda) Ltd				
Intl Growth Fd	$15.92	16.72	+0.04	—
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs (2)	$12.05		-0.02	—
Wells Fargo B Shs (2)	$13.62			—
Worldwide Limited				
NAV Mar 31	$89.18		—	—
Xiphias International Investment Fd Ltd				
Xiphias Int US$ Acc	$1.4241		—	—
Xiphias Int ECU Acc	Ecu1.4714		—	—
Xiphias Int ECU Dis	Ecu1.2549		—	—
Yamaichi Capital Management (Guernsey) Ltd				
Thai Inv Fund	$19.18		—	—

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older linked plans subject to capital gains tax on sales. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. o Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities). x Offered price includes all expenses except agent's commission. z Previous day's price. §§ Guernsey gross. § Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Financial Services Department; Luxembourg: Institut Monétaire Luxembourgeois.

CURRENCIES AND MONEY

MARKETS REPORT

Dollar remains fragile

The dollar yesterday fell to its lowest level in more than six months against the D-Mark, but there was no public evidence of further central bank support for the currency, *writes Philip Gawith.*

The dollar closed in London at DM1.6461, more than a pfennig down on its Friday close of DM1.657. Against the yen it finished at Y101.315 from Y101.485.

Trade was fairly quiet, following the UK long weekend and with Japanese markets closed for most of the week.

The dollar's woes spilled over into sterling, which finished nearly three pfennigs lower at DM2.483, from Friday's close of DM2.5126. Political uncertainty ahead of tomorrow's local elections is also weighing on the UK currency.

Elsewhere, a controversy in Spain surrounding the disappearance of a former senior police official undermined the peseta and the escudo.

■ While there was no repeat of Friday's Fed support for the dollar, there was talk of concerted European central bank dollar purchases at $1.6450. Since these activities are normally conducted through commercial banks, their origins are not always clear.

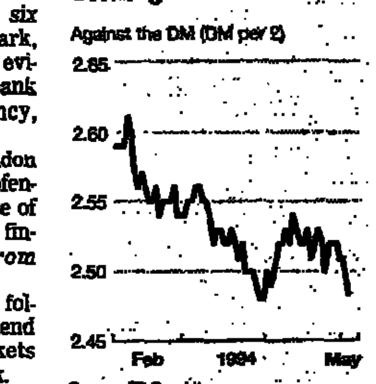
Current market consensus on the dollar is that it is likely to weaken in the short term, in defiance of fundamentals. But Mr Avinash Persaud, head of currency research at JP Morgan (Europe), argues that "the dollar is technically ripe for a large correction, were we to see co-ordinated and sustained central bank intervention."

He notes that a survey of clients, trading with 1-3 month time horizons, shows this segment of the market to be significantly short of dollars, for the first time in a year. Overall, says Mr Persaud, the market remains long of dollars, but it is the marginal investors who will determine a turn.

Mr David Cocker, currency analyst at Chemical Bank, said the US currency "would need *very supportive comments* from the Clinton administration to really turn the dollar around." US comments so far had been too ambiguous to ease market nerves.

Sterling

Against the DM (DM per £)



Source: FT Graphite

■ **Pound in New York**

May 3	—Latest—	—Prev. close—
£ spot	1.5140	1.5180
1 mth	1.5126	1.5165
3 mth	1.5109	1.5147
1 yr	1.5078	1.5118

■ The D-Mark was stronger in Europe, helped by the improved outlook for the German economy. The feature of European trading was the weakness of the Iberian currencies. The peseta finished in London at Pta81.81 from Pta81.46 on Friday against the D-Mark, while the escudo fell in tandem to close at Es103.1 from from Es103.

The catalyst for currency weakness was the escalating *political scandal* about the police chief, coming on top of an earlier embarrassment surrounding a former Bank of Spain governor, which caused a minister to resign and prime minister Felipe Gonzales to cancel an overseas visit.

But political scandal comes against a background of nervous investors searching for security in European bond markets, which works against high-yielding economies such as Spain and Portugal. Ms Wendy Niffikeer, senior economist at IBJ International in London, said the scandal was "an excuse for investors to sell the Iberian markets, because the inflation outlook was not as good as for some other European economies."

■ *The Bundesbank will* announce today the results of its weekly repo tender. Market estimates are for the central bank to allow the repo rate to fall by 5-12 basis points from 5.47 per cent currently. It dropped by 23 basis points over the past two weeks.

But Ms Phyllis Reed, European bond strategist at BZW, believes the market is making the error of extrapolating from past trends. With the mid-point of German call money yesterday at about 5.55 per cent, above the repo rate of 5.47 per cent, she predicts a cut of only 2-3 basis points.

In the futures market the June euromark contract closed at 94.89, down from 94.92.

■ Sterling gave up most of its recent gains with the sterling index closing at 79.6 from its previous close of 80.3. The pound normally trades in tandem with the dollar, so the US currency's weakness is one *explanation for sterling's* decline.

Political uncertainty is also weighing on the UK currency. Weekend press reports drew attention to the weak position of prime minister Mr John Major, and the market fears that heavy Tory losses in Thursday's local elections will aggravate matters further.

In the futures market, short sterling lost ground as the likelihood of a further rate cut receded. Stronger than expected growth in April M0 was merely the latest in a string of data showing robust growth in the economy. The June contract closed at 94.58 from 94.62 on Friday. The longer contracts gave up more ground, with the December future finishing at 93.82 from 93.88.

Conditions in the money market remained easy as the Bank of England removed a small £100m shortage.

■ The guilder was unaffected by elections in the Netherlands, closing at Fl1.123 from Fl1.122. Investors also stood on the sidelines in South Africa, awaiting clarity about the outcome of the election. The financial rand firmed to R4.6 against the dollar from R4.625.

■ **OTHER CURRENCIES**

May 3	£	$
Hungary	153.781 - 154.003	101.970 - 102.070
Iran	2643.00 - 2649.00	1748.00 - 1750.00
Kuwait	0.4465 - 0.4480	0.2961 - 0.2969
Poland	33668.6 - 33721.8	22325.0 - 22350.0
Russia	2695.69 - 2704.74	1787.00 - 1793.00
U.A.E.	5.5453 - 5.5586	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

May 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.4754	-0.1463	676 - 832	17.6810	17.4676	17.4716	0.3	17.466	0.2	-	-	113.6
Belgium	(BFr)	51.1033	-0.5326	639 - 227	51.4579	51.0839	51.1233	-0.5	51.1583	-0.4	51.1433	-0.1	115.2
Denmark	(DKr)	9.7170	-0.0941	132 - 207	9.7826	9.7132	9.7272	-1.3	9.7405	-1.0	9.7502	-0.3	115.1
Finland	(FM)	8.0571	-0.0362	477 - 665	8.1100	8.0477	-	-	-	-	-	-	82.0
France	(FFr)	8.5056	-0.0745	004 - 111	8.5801	8.5004	8.512	-0.9	8.5183	-0.6	8.4963	0.1	107.9
Germany	(DM)	2.4830	-0.0227	820 - 839	2.4999	2.4820	2.4837	-0.3	2.4827	0.0	2.4661	0.6	123.8
Greece	(Dr)	365.496	-1.752	111 - 884	367.313	365.111	-	-	-	-	-	-	-
Ireland	(I£)	1.0222	-0.0036	211 - 233	1.0265	1.0210	1.023	-0.9	1.0244	-0.9	1.0279	-0.6	103.6
Italy	(L)	2393.53	-17.09	222 - 484	2404.61	2392.22	2398.93	-3.2	2410.03	-2.8	2445.68	-2.2	78.0
Luxembourg	(LFr)	51.1033	-0.5326	639 - 227	51.4579	51.0839	51.1233	-0.5	51.1583	-0.4	51.1433	-0.1	115.2
Netherlands	(Fl)	2.7884	-0.023	870 - 898	2.8054	2.7870	2.7881	0.2	2.7868	0.0	2.7724	0.6	118.7
Norway	(NKr)	10.7786	-0.0862	696 - 776	10.8521	10.7696	10.7882	0.6	10.7807	-0.3	10.7719	0.0	85.1
Portugal	(Es)	255.996	-1.63	623 - 345	256.521	255.623	256.992	-4.6	258.904	-4.6	-	-	-
Spain	(Pta)	203.189	-1.536	066 - 311	204.626	203.066	203.729	-3.2	204.634	-2.8	207.459	-2.1	85.4
Sweden	(SKr)	11.4916	-0.0829	833 - 999	11.5730	11.4833	11.5125	-2.2	11.5486	-2.0	11.6676	-1.5	77.4
Switzerland	(SFr)	2.1178	-0.0116	166 - 191	2.1260	2.1139	2.1156	1.2	2.1111	1.3	2.0812	1.7	117.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.6
Ecu	-	1.2882	-0.0091	873 - 890	1.2949	1.2873	1.2892	-0.9	1.2902	-0.6	1.2879	0.0	-
SDR†	-	0.941623	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5060	-0.01	055 - 064	1.5133	1.5032	-	-	-	-	-	-	-
Brazil	(Cr)	2032.06	+19.31	857 - 955	2034.00	1997.00	-	-	-	-	-	-	-
Canada	(C$)	2.0872	-0.0106	860 - 884	2.0945	2.0837	2.0881	-0.7	2.0927	-0.9	2.1104	-1.1	86.4
Mexico	(New Peso)	4.9553	-0.0026	466 - 640	4.9640	4.9384	-	-	-	-	-	-	-
USA	($)	1.5085	-0.01	081 - 088	1.5160	1.5058	1.5071	1.1	1.5053	0.8	1.5025	0.4	64.7
Pacific/Middle East/Africa													
Australia	(A$)	2.1350	+0.0021	337 - 362	2.1373	2.1232	2.1335	0.8	2.1311	0.7	2.1262	0.3	-
Hong Kong	(HK$)	11.6531	-0.0773	496 - 565	11.7108	11.6337	11.6401	1.3	11.6346	0.6	11.6556	0.6	-
India	(Rs)	47.3164	-0.3289	018 - 311	47.5530	47.2400	-	-	-	-	-	-	-
Japan	(Y)	152.829	-1.717	755 - 902	154.120	152.755	152.454	2.9	151.699	3.0	148.094	3.1	189.8
Malaysia	(M$)	4.0325	-0.0331	306 - 342	4.0596	4.0287	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6222	-0.007	210 - 234	2.6326	2.6202	2.6281	-1.3	2.6304	-1.1	2.639	-0.6	-
Philippines	(Peso)	41.5352	-0.2793	993 - 711	42.0535	41.0657	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6572	-0.0375	557 - 586	5.6852	5.6479	-	-	-	-	-	-	-
Singapore	(S$)	2.3441	-0.0158	429 - 454	2.3565	2.3408	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.3486	+0.0001	462 - 510	5.3553	5.3101	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.9389	-0.0614	222 - 556	6.9736	6.8204	-	-	-	-	-	-	-
South Korea	(Won)	1215.74	-10.07	508 - 639	1223.58	1214.59	-	-	-	-	-	-	-
Taiwan	(T$)	39.9080	-0.1976	992 - 228	40.0400	39.8800	-	-	-	-	-	-	-
Thailand	(Bt)	37.9677	-0.2862	435 - 918	38.1560	37.9180	-	-	-	-	-	-	-

†SDR rate for Apr 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.5860	-0.021	825 - 875	11.6195	11.5590	11.6	-1.6	11.61	-0.9	11.5953	-0.1	103.0
Belgium	(BFr)	33.8780	-0.1295	730 - 830	33.9930	33.8500	33.923	-1.6	33.998	-1.3	33.988	-0.3	104.5
Denmark	(DKr)	6.4417	-0.0194	407 - 427	6.4887	6.4407	6.4534	-2.2	6.4702	-1.8	6.4778	-0.6	103.6
Finland	(FM)	5.3413	-0.0115	353 - 473	5.3646	5.3353	5.3503	-2.0	5.3598	-1.4	5.3825	-0.8	77.1
France	(FFr)	5.6388	-0.0117	365 - 410	5.6590	5.6330	5.6482	-2.0	5.6589	-1.4	5.6551	-0.3	104.2
Germany	(DM)	1.6461	-0.004	458 - 463	1.6520	1.6436	1.6481	-1.4	1.6497	-0.9	1.6497	-0.2	104.8
Greece	(Dr)	242.300	-0.45	100 - 500	243.000	242.100	245.05	-13.6	253.425	-18.4	283.3	-16.5	70.4
Ireland	(I£)	1.4758	-0.0045	746 - 770	1.4826	1.4708	1.4732	2.1	1.4694	1.7	1.4813	1.0	-
Italy	(L)	1586.75	-0.75	625 - 725	1591.00	1583.50	1592.45	-4.3	1601	-3.6	1627.75	-2.6	78.8
Luxembourg	(LFr)	33.8780	-0.1295	730 - 830	33.9930	33.8500	33.923	-1.6	33.998	-1.3	33.988	-0.3	104.5
Netherlands	(Fl)	1.8485	-0.0029	480 - 490	1.8555	1.8460	1.8504	-1.3	1.8522	-0.8	1.8517	-0.2	104.0
Norway	(NKr)	7.1422	-0.0058	414 - 433	7.1735	7.1381	7.151	-1.5	7.1635	-1.2	7.1743	-0.4	95.1
Portugal	(Es)	169.700	-0.05	600 - 800	170.980	169.650	171	-9.2	172.95	-7.7	178.2	-5.0	92.9
Spain	(Pta)	134.700	-0.12	650 - 750	135.300	134.650	135.185	-4.3	135.94	-3.7	138.075	-2.5	80.7
Sweden	(SKr)	7.6182	-0.003	144 - 219	7.6827	7.6007	7.6417	-3.7	7.681	-3.3	7.7302	-2.3	83.0
Switzerland	(SFr)	1.4040	+0.0016	035 - 045	1.4065	1.4000	1.4217	-15.2	1.4028	0.3	1.387	1.2	104.1
UK	(£)	1.5085	-0.01	081 - 088	1.5160	1.5059	1.5071	1.1	1.5053	0.8	1.5025	0.4	88.7
Ecu	-	1.1710	+0.0005	705 - 715	1.1723	1.1673	1.1691	2.0	1.1669	1.4	1.1662	0.4	-
SDR†	-	1.42469	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9994	-0.001	993 - 994	0.9994	0.9993	-	-	-	-	-	-	-
Brazil	(Cr)	1345.13	+21.62	512 - 514	1345.14	1345.12	-	-	-	-	-	-	-
Canada	(C$)	1.3841	+0.0022	838 - 843	1.3845	1.3807	1.3863	-1.9	1.3902	-1.8	1.4046	-1.5	83.0
Mexico	(New Peso)	3.2850	+0.02	800 - 900	3.2900	3.2500	3.296	-0.4	3.2678	-0.3	3.2962	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	99.3
Pacific/Middle East/Africa													
Australia	(A$)	1.4153	+0.0107	148 - 168	1.4158	1.4045	1.4165	-1.1	1.4212	-1.7	1.4316	-1.2	85.7
Hong Kong	(HK$)	7.7252	+0.0002	247 - 257	7.7257	7.7247	7.7262	-0.5	7.7342	-0.5	7.7589	-0.4	-
India	(Rs)	31.3675	-0.0036	650 - 700	31.3700	31.3650	31.4325	-2.5	31.5875	-2.6	-	-	-
Japan	(Y)	101.315	-0.48	290 - 340	101.820	101.100	101.16	1.8	100.78	2.1	98.555	2.7	149.2
Malaysia	(M$)	2.6733	-0.0041	728 - 738	2.6785	2.6710	2.6683	3.1	2.6608	3.4	2.7133	-1.5	-
New Zealand	(NZ$)	1.7380	+0.0069	370 - 400	1.7400	1.7349	1.7403	-0.9	1.7448	-1.5	1.7567	-1.6	-
Philippines	(Peso)	27.5350	-	850 - 850	[illegible]	[illegible]	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	+0.0001	502 - 505	3.7505	3.7502	3.7511	-0.2	3.7534	-0.3	3.7649	-0.4	-
Singapore	(S$)	1.5540	-0.0001	535 - 545	1.5545	1.5535	1.5534	0.5	1.5529	0.3	1.5515	0.2	-
S Africa (Com.)	(R)	3.5458	+0.0235	450 - 465	3.5465	3.5120	3.5623	-5.6	3.5883	-4.8	3.6813	-3.8	-
S Africa (Fin.)	(R)	4.6000	-0.01	900 - 100	4.6250	4.5750	4.634	-8.9	4.694	-8.2	-	-	-
South Korea	(Won)	805.950	-1.3	700 - 200	807.500	805.700	808.95	-4.5	812.45	-3.2	830.95	-3.1	-
Taiwan	(T$)	26.4550	+0.045	500 - 600	26.4600	26.4000	26.5205	-3.0	26.621	-2.5	-	-	-
Thailand	(Bt)	25.1700	-0.01	600 - 800	25.1800	25.1600	25.25	-3.8	25.375	-3.3	25.895	-2.9	-

†SDR rate for May 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 2. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 3		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	16.65	4.859	2.000	4683	5.456	21.08	500.8	397.7	22.49	4.145	1.957	4.086	2.953	299.0	2.521
Denmark	(DKr)	52.58	10	8.754	2.555	1.052	2463	2.869	11.08	263.4	209.1	11.82	2.180	1.029	2.149	1.553	157.3	1.326
France	(FFr)	60.08	11.42	10	2.919	1.202	2813	3.278	12.66	300.8	238.9	13.51	2.490	1.176	2.455	1.774	179.6	1.514
Germany	(DM)	20.58	3.913	3.426	1	0.412	963.8	1.123	4.337	103.1	81.84	4.627	0.853	0.403	0.841	0.608	61.54	0.519
Ireland	(I£)	50.00	9.508	8.323	2.430	1	2341	2.728	10.54	250.4	198.8	11.24	2.072	0.978	2.043	1.477	149.5	1.260
Italy	(L)	2.135	0.406	0.355	0.104	0.043	100.	0.117	0.450	10.69	8.491	0.480	0.089	0.042	0.087	0.063	6.385	0.054
Netherlands	(Fl)	18.33	3.485	3.051	0.891	0.367	858.3	1	3.863	91.79	72.88	4.121	0.760	0.359	0.749	0.541	54.81	0.462
Norway	(NKr)	47.45	9.022	7.896	2.305	0.949	2222	2.589	10	237.6	188.7	10.67	1.967	0.929	1.939	1.401	141.9	1.196
Portugal	(Es)	19.97	3.797	3.324	0.970	0.399	935.1	1.089	4.209	100.	79.41	4.490	0.828	0.391	0.816	0.590	59.71	0.503
Spain	(Pta)	25.15	4.782	4.186	1.222	0.503	1178	1.372	5.300	125.9	100.	5.655	1.042	0.492	1.028	0.743	75.20	0.634
Sweden	(SKr)	44.47	8.457	7.403	2.161	0.889	2083	2.426	9.373	222.7	176.8	10	1.843	0.870	1.817	1.313	133.0	1.121
Switzerland	(SFr)	24.13	4.588	4.016	1.172	0.483	1130	1.316	5.085	120.8	95.94	5.425	1	0.472	0.986	0.712	72.14	0.608
UK	(£)	51.10	9.717	8.506	2.483	1.022	2393	2.788	10.77	255.9	203.2	11.49	2.118	1	2.088	1.509	152.8	1.288
Canada	(C$)	24.47	4.654	4.074	1.189	0.489	1146	1.335	5.158	122.6	97.32	5.503	1.014	0.479	1	0.723	73.18	0.617
US	($)	33.86	6.439	5.637	1.645	0.677	1586	1.848	7.137	169.6	134.7	7.614	1.404	0.663	1.384	1	101.3	0.854
Japan	(Y)	334.4	63.59	55.67	16.25	6.688	15661	18.25	70.48	1675	1330	75.20	13.86	6.545	13.66	9.876	1000.	8.429
Ecu		39.67	7.544	6.604	1.928	0.793	1858	2.165	8.362	198.7	157.8	8.921	1.644	0.776	1.621	1.172	118.6	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

EMS EUROPEAN CURRENCY UNIT RATES

May 3	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.794658	+0.003535	-1.73	4.93	12
Netherlands	2.19672	2.16687	-0.00311	-1.36	4.54	-
Belgium	40.2123	39.7244	-0.0693	-1.21	4.36	9
Germany	1.94964	1.92964	-0.0036	-1.03	4.18	-
France	6.53883	6.61272	-0.01395	1.13	1.96	-9
Denmark	7.43679	7.56435	-0.02358	1.72	1.38	-12
Spain	154.250	158.016	+0.519	2.44	0.66	-17
Portugal	192.854	198.862	-0.014	3.12	0.00	-21
NON ERM MEMBERS						
Greece	264.513	284.163	-0.003	7.43	-4.02	-
Italy	1793.19	1860.57	+6.09	3.76	-0.82	-
UK	0.786749	0.776195	+0.00642	-1.34	4.52	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6052	0.6061	+0.0007	0.6074	0.6044	34,487	110,635
Sep	0.6065	0.6057	+0.0007	0.6067	0.6056	409	3,946
Dec	-	-	-	-	-	-	-

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9864	0.9867	+0.0037	0.9906	0.9840	14,651	61,844
Sep	0.9855	0.9946	+0.0037	0.9965	0.9946	147	3,372
Dec	-	-	-	-	-	-	-

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7130	0.7135	+0.0006	0.7147	0.7112	13,140	40,322
Sep	0.7151	0.7146	+0.0001	0.7163	0.7145	246	765
Dec	-	-	-	-	-	-	-

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5136	1.5078	-0.0060	1.5148	1.5070	8,603	48,057
Sep	1.5090	1.5040	-0.0066	1.5090	1.5040	106	1,170
Dec	-	1.5030	-	-	1.5030	22	47

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS May	Jun	Jul	PUTS May	Jun	Jul
1.425	8.21	8.15	8.26	-	0.03	0.28
1.450	5.77	5.88	6.19	-	0.19	0.64
1.475	3.37	3.80	4.34	0.06	0.81	1.26
1.500	1.40	2.18	2.81	0.53	1.42	2.21
1.525	0.33	1.06	1.74	1.95	2.75	3.52
1.550	0.02	0.44	0.99	4.09	4.61	5.24

Previous day's vol., Calls 3,947 Puts 9,846 . Prev. day's open int., Calls 430,362 Puts 366,028

WORLD INTEREST RATES

MONEY RATES

May 3	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	5 11/16	5 11/16	5 11/16	5¾	5¾	7.40	4.75	-
week ago	-	5 11/16	5 11/16	5 11/16	5 11/16	7.40	4.75	-
France	5⅝	5⅝	5 11/16	5¾	5¾	5.70	-	7.75
week ago	5 11/16	5⅝	5⅝	5⅝	5 11/16	5.60	-	7.75
Germany	5.52	5.42	5.32	5.22	5.20	6.50	5.00	5.47
week ago	5.40	5.42	5.38	5.32	5.28	6.50	5.00	5.58
Ireland	5⅞	5 13/16	6	6⅛	6⅛	-	-	6.50
week ago	6	5 13/16	6¼	6⅛	6⅛	-	-	6.50
Italy	8⅝	8⅛	8	8	8⅛	-	8.00	8.27
week ago	8⅛	8⅛	8	8	8⅛	-	8.00	8.27
Netherlands	5.46	5.26	5.22	5.21	5.20	-	5.25	-
week ago	5.40	5.26	5.36	5.36	5.35	-	5.25	-
Switzerland	3 13/16	4	4	4	4	6.625	3.50	-
week ago	3¾	4	4⅛	4⅛	4⅛	6.625	3.50	-
US	3¾	4	4⅜	4 11/16	5⅜	-	3.00	-
week ago	3 11/16	4	4⅜	4⅜	5⅛	-	3.00	-
Japan	2⅛	2¼	2¼	2⅜	2 11/16	-	1.75	-
week ago	2⅛	2¼	2¼	2⅜	2 11/16	-	1.75	-
■ **$ LIBOR FT London**								
Interbank Fixing	-	4⅛	4⅜	4¾	5⅛	-	-	-
week ago	-	4⅛	4¼	4⅝	5¼	-	-	-
US Dollar CDs	-	3.84	4.14	4.55	5.15	-	-	-
week ago	-	3.84	4.04	4.41	4.98	-	-	-
SDR Linked Ds	-	3⅝	3⅞	3⅞	4	-	-	-
week ago	-	3⅞	3⅞	3⅞	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 5¾; 6 mths: 5¾; 1 year: 5¾. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 3	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5 11/16 - 5 9/16	5 11/16 - 5 9/16	5 11/16 - 5 9/16	5 11/16 - 5 9/16	5¾ - 5⅝	5¾ - 5⅝
Danish Krone	6¼ - 5¾	6¼ - 5¾	6⅛ - 5 15/16	6⅛ - 5 15/16	6 1/16 - 5 15/16	6⅛ - 5 15/16
D-Mark	5⅝ - 5½	5½ - 5⅜	5⅜ - 5¼	5¼ - 5⅛	5 3/16 - 5 1/16	5 3/16 - 5 1/16
Dutch Guilder	5⅜ - 5¼	5⅜ - 5¼	5 5/16 - 5 3/16	5¼ - 5⅛	5¼ - 5⅛	5¼ - 5⅛
French Franc	6 - 5⅞	5 13/16 - 5 11/16	5¾ - 5⅝	5 13/16 - 5 11/16	5¾ - 5⅝	5¾ - 5⅝
Portuguese Esc.	12⅜ - 12	12¾ - 12¼	13⅛ - 12⅝	12¼ - 11⅞	11 9/16 - 10¾	10⅝ - 10⅛
Spanish Peseta	7 13/16 - 7⅝	7 13/16 - 7⅝	7 13/16 - 7⅝	7 13/16 - 7⅝	7 13/16 - 7⅝	7 13/16 - 7⅝
Sterling	4⅞ - 4¾	5 - 4⅞	5 3/16 - 5 1/16	5¼ - 5⅛	5 7/16 - 5 5/16	5⅞ - 5¾
Swiss Franc	3⅞ - 3¾	4 - 3¾	3 15/16 - 3 13/16	4 - 3⅞	4 - 3⅞	4 - 3⅞
Can. Dollar	5¾ - 5½	5 15/16 - 5 7/16	5¾ - 5⅝	6 1/16 - 6 15/16	6⅜ - 6¼	6 15/16 - 6 13/16
US Dollar	3 13/16 - 3 11/16	3⅞ - 3¾	4 1/16 - 3 15/16	4⅜ - 4¼	4¾ - 4⅝	5 7/16 - 5 5/16
Italian Lira	9 - 7½	8 - 7½	8 - 7½	8 - 7⅝	8 - 7⅝	8⅛ - 7⅞
Yen	2 5/16 - 2¼	2 5/16 - 2 3/16	2 5/16 - 2¼	2 5/16 - 2¼	2 7/16 - 2⅜	2⅝ - 2½
Asian $Sing	3½ - 2½	3½ - 2½	3½ - 2½	4 - 3	4 - 3	4¼ - 3¼

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.39	94.40	+0.02	94.45	94.38	13,709	57,146
Sep	94.61	94.60	-	94.63	94.59	11,694	46,828
Dec	94.59	94.59	+0.02	94.61	94.56	6,946	37,999
Mar	94.46	94.47	+0.02	94.49	94.43	2,644	32,268

■ **THREE MONTH EURODOLLAR** (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.23	95.22	-0.06	95.23	95.22	69	5304
Sep	94.59	94.57	-0.09	94.59	94.59	47	2192
Dec	94.10	94.08	-0.05	94.10	94.09	12	1497
Mar		93.81	-0.06			0	986

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.91	94.89	-0.03	94.92	94.87	27699	211984
Sep	95.04	95.05	-	95.06	95.02	28017	158519
Dec	95.00	94.97	-0.03	95.00	94.96	27797	177153
Mar	94.92	94.90	-0.03	94.93	94.88	18090	189334

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.33	92.27	-0.06	92.33	92.25	3393	44628
Sep	92.35	92.37	-0.02	92.39	92.34	2005	27508
Dec	92.25	92.27	-0.03	92.30	92.24	2032	31669
Mar	92.06	92.06	-0.04	92.09	92.02	819	11465

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.13	96.10	-0.05	96.14	96.09	2516	23560
Sep	96.12	96.11	-0.05	96.14	96.10	644	11023
Dec	96.03	96.04	-0.03	96.04	96.01	555	4719
Mar	95.84	95.82	-0.03	95.84	95.82	31	641

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.27	94.32	+0.04	94.33	94.27	943	11641
Sep	94.39	94.42	+0.03	94.43	94.39	473	11956
Dec	94.36	94.37	+0.01	94.38	94.36	263	7035
Mar	94.19	94.21	+0.01	94.22	94.19	221	2634

* LIFFE futures traded on APT

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.24	95.23	-0.01	95.24	95.21	36,825	419,477
Sep	94.60	94.59	-0.02	94.61	94.57	74,884	391,698
Dec	94.11	94.10	-0.01	94.11	94.07	75,536	353,035

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.65	95.65	-0.02	95.65	95.63	2,257	26,685
Sep	95.09	95.09	-0.02	95.09	95.07	308	10,656
Dec	94.68	94.69	-0.01	94.69	94.68	115	5,514

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9475	0.17	0.36	0.39	0.03	0.06	0.17
9500	0.05	0.20	0.25	0.16	0.15	0.28
9525	0.02	0.09	0.16	0.38	0.29	0.44

Est. vol. total, Calls 8955 Puts 3520. Previous day's open int., Calls 229701 Puts 182943

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9600	0.13	0.22	0.26	0.03	0.11	0.22
9625	0.03	0.09	0.14	0.16	0.23	0.35
9650	0.01	0.03	0.07	0.41	0.42	0.53

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 549 Puts 4054

UK INTEREST RATES

LONDON MONEY RATES

May 3	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	4¾ - 3	5 - 4 13/16	5⅛ - 4 15/16	5¼ - 5⅛	5 7/16 - 5 5/16	5⅞ - 5¾
Sterling CDs	-	-	5 1/16 - 4 15/16	5⅛ - 5 1/16	5 5/16 - 5¼	5¾ - 5 11/16
Treasury Bills	-	-	4⅞ - 4 13/16	4 15/16 - 4⅞	-	-
Bank Bills	-	-	4 15/16 - 4⅞	4 15/16 - 4⅞	5⅛ - 5 1/16	-
Local authority deps.	4 13/16 - 4 11/16	4 15/16 - 4 13/16	5 1/16 - 5	5 3/16 - 5 1/16	5⅜ - 5¼	5 9/16 - 5 7/16
Discount Market Deps	4⅝ - 4	4⅞ - 4¾	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994.

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3½	3½	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash 1pc. Ave. tender rate of discount 4.8455pc. ECGD fixed rate Stg. Export Finance. Make up day April 29, 1994. Agreed rate for period May 26, 1994 to Jun 25, 1994, Scheme II & III 6.26pc. Reference rate for period Apr 1, 1994 to Apr 29, 1994, Schemes IV & V 5.598pc. Finance House Base Rate 6pc from May 1, 1994

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.61	94.58	-0.03	94.62	94.58	6367	83803
Sep	94.54	94.39	-0.06	94.45	94.36	6790	99066
Dec	93.87	93.82	-0.06	93.87	93.80	7882	124409
Mar	93.38	93.33	-0.05	93.38	93.25	3253	47901

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9450	0.15	0.15	0.12	0.06	0.36	0.80
9475	0.04	0.07	0.07	0.20	0.53	1.00
9500	0.01	0.03	0.03	0.42	0.74	1.21

Est. vol. total, Calls 1800 Puts 2942. Previous day's open int., Calls 171002 Puts 159947

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	•Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6.25	•Smith & Williamson Secs	5.25
•Henry Ansbacher	5.25	•Robert Fleming & Co	5.25	Standard Chartered	5.25
Bank of Baroda	5.25	Girobank	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	•Guinness Mahon	5.25	•United Bk of Kuwait	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	•Hambros Bank	5.25	Western Trust	5.25
Bank of India	5.25	Heritable & Gen Inv Bk	5.25	Whiteaway Laidlaw	5.25
Bank of Scotland	5.25	•Hill Samuel	5.25	Yorkshire Bank	5.25
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
•Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	•Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	•Mount Banking	5.25		
Credit Lyonnais	5.25	NatWest	5.25		
Cyprus Popular Bank	5.25	•Rea Brothers	5.25		

• Members of British Merchant Banking & Securities Houses Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

Coutts & Co [illegible]
Dao Heng Bank (London) PLC Premier Acc [illegible]
DAF Money Management Co Ltd [illegible]
Egerton Tst Plc [illegible]
The COIF Charities Deposit Account [illegible]
Fidelity Money Market Account [illegible]
Cent. Bd. of Fin. of Church of England [illegible]

Money Market Bank Accounts

Halifax Bldg Soc Asset Reserve Cheque Acc [illegible]
Allied Trust Bank plc [illegible]
Julian Hodge Bank Ltd [illegible]
Northamptonshire Finance Group [illegible]
Leopold Joseph & Sons Limited [illegible]
Allied Trust Bank Ltd [illegible]
Kleinwort Benson Ltd [illegible]
American Express Bank Ltd [illegible]
Lloyds Bank – Investment Account [illegible]
Bank of Ireland High Interest Cheque Acc [illegible]
Midland Bank plc [illegible]
Bank of Scotland [illegible]
Nationwide Bldg Soc [illegible]
Barclays Select [illegible]
Portman Bldg Soc [illegible]
Barclays Prime Account H.I.C.A. [illegible]
Rea Brothers Limited [illegible]
Brown Shipley & Co Ltd [illegible]
Royal Bank of Scotland plc Premium Acc [illegible]
Caledonian Bank Plc [illegible]
Save & Prosper/Robert Fleming [illegible]
Cater Allen Ltd [illegible]
Tyndall Bank plc [illegible]
Charterhouse Bank Limited [illegible]
UCB Trust Limited [illegible]
Clydesdale Bank Flexible Solution Acc [illegible]
United Dominions Trust Ltd [illegible]
The Co-operative Bank [illegible]
J. Henry Schroder Wagg & Co Ltd [illegible]
Western Trust High Interest Cheque Account [illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 3 / Sch)

BELGIUM/LUXEMBOURG (May 3 / Frs.)

DENMARK (May 3 / Kr)

FINLAND (May 3 / Mkk)

FRANCE (May 3 / Frs.)

GERMANY (May 3 / Dm.)

ITALY (May 3 / Lire)

NETHERLANDS (May 3 / Fls.)

NORWAY (May 3 / Kroner)

SPAIN (May 3 / Pts.)

SWEDEN (May 3 / Kronor)

SWITZERLAND (May 3 / Frs.)

PACIFIC

JAPAN (May 2 / Yen)

AUSTRALIA (May 3 / Aust$)

HONG KONG (May 3 / H.K.$)

MALAYSIA (May 3 / MYR)

SINGAPORE (May 3 / S$)

NORTH AMERICA

CANADA

TORONTO (May 3 / Can $)

4 pm close

MONTREAL (May 3 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (May 3 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. (B) Owing to technical problems some South African prices are unavailable for this edition.

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TOKYO - MOST ACTIVE STOCKS: Monday, May 2, 1994

	Stocks Traded	Closing Prices	Change on day
Brother Inds	5.2m	665	+27
Yamato Trans	2.9m	1,250	-10
Tokyo Broadcast	2.4m	1,720	-30
Wakachiku Const	1.9m	655	+15
Hitachi	1.8m	951	-9
Marubeni	1.7m	515	-4
Meiji Seika	1.5m	640	+23
NEC Corp	1.2m	1,110	-20
Fujitsu	1.1m	1,000	-20
Nippon Steel	1.1m	344	-3

INDICES

	May 3	May 2	Apr 29	1994 High	1994 Low

WORLD

MS Capital Int (1/1/70) | 616.6 | 617.5 | 617.3 | 644.09 1/2 | 591.80 4/4

CROSS-BORDER

Eurotrack 100(26/10/90)	1488.35	(c)	1462.82	1540.19 31/1	1393.80 2/3
Euro Top-100 (26/6/90)	1260.15	1265.92	1263.23	1311.01 2/2	1202.49 2/3
JCapeDrgst (31/12/88)	(u)	307.11	308.94	395.19 5/1	280.28 21/3
Barings Emerg.(7/1/92)	151.22	152.65	153.00	182.72 14/2	141.85 21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
May	2182.0	2179.0	-10.0	2188.0	2173.0	16,040	20,472
Jun	2168.0	2161.5	-10.5	2170.0	2156.0	460	30,327
Jul	2165.0	2159.0	-	2165.0	2165.0	1	20

Open interest figures for previous day.

US INDICES

Dow Jones	May 2	Apr 29	Apr 28	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3701.02	3681.69	3668.31	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	98.18	98.59	98.56	105.61 (21/1)	98.18 (2/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1647.55	1650.13	1635.63	1862.29 (2/2)	1546.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	197.54	199.38	197.54	227.06 (3/1)	192.99 (4/4)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3734.04 (3707.87) Low 3648.97 (3642.15) (Theoretical♣)

Day's high 3713.52 (3689.42) Low 3665.63 (3659.09) (Actual♣)

Standard and Poors							
Composite ‡	453.02	450.99	449.10	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	528.32	525.00	523.22	560.59 (2/2)	510.05 (21/4)	560.59 (2/2/94)	3.62 (21/6/32)
Financial	43.60	43.40	43.09	46.56 (31/1)	41.39 (4/4)	48.40 (26/9/93)	8.64 (1/10/74)
NYSE Comp.	251.40	250.36	249.13	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	440.20	439.91	438.92	487.89 (2/2)	427.80 (20/4)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Comp	740.68	733.84	731.89	803.93 (18/3)	705.51 (20/4)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Apr 29	Apr 22	Apr 15	Year ago
Dow Jones Ind. Div. Yield	2.76	2.79	2.77	2.99
	Apr 27	Apr 20	Apr 13	Year ago
S & P Ind. Div. yield	2.48	2.55	2.51	2.57
S & P Ind. P/E ratio	23.94	23.24	23.67	29.46

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	452.85	452.05	-0.80	453.00	451.90	82,052	189,080
Sep	-	-	-	-	-	-	-
Dec	-	-	-				

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Syntex	12,164,000	23½	+8¼
Merck	3,891,800	31¼	+1⅛
RJR Nabisco	3,665,000	6½	+⅛
Up John	3,213,200	28½	+1¼
Glaxo	3,060,500	17¾	+½
Motorola	3,013,000	43⅝	-⅛
East Kodak	2,428,400	44½	+3
Telefonos	2,289,600	57½	-1
Gen Motors	2,259,200	57¼	+½
Ford Motor	2,244,900	60⅜	+2¼

■ TRADING ACTIVITY

● Volume (million)

	May 2	Apr 29	Apr 28
New York SE	299.259	293.910	323.144
Amex	16.070	12.802	20.136
NASDAQ	(u)	263.806	308.891
NYSE			
Issues Traded	2,782	2,767	2,810
Rises	1,222	1,298	913
Falls	947	846	1,287
Unchanged	613	623	630
New Highs	40	29	31
New Lows	47	49	68

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

... values of all indices are 100 except Australia All Ordinary and ... Toronto Comp./Metals & ... CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Sat Apr 30: Taiwan Weighted Price 5737.30; Korea Comp Ex 908.72. ‡ IBIS/DAX after-hours index: May 3 - 2261.71 -6.01. ♣ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable.

4 pm close May 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
22½	18	Am Watr 5% x	1.25	6.3		z100	19¾	19¾	19¾	
32¼	27½	Am Watr	1.08	3.8	12	117	29	28¾	28¾	-¼
43½	36¼	Amrtch	1.92	5.0	13	5009	39¼	38¾	38¾	-¼
43½	35⅞	Ameron Inc x	1.28	3.4	5	16	37⅞	37⅛	37⅜	
14	11⅝	Ametek	0.24	1.7	142	508	u14⅛	13⅞	14¼	+⅜
57⅝	50⅞	Amoco	2.20	3.9	15	5838	56¼	55⅞	56	-¼
9¾	7	AmpcoPitt	0.10	1.2	6	24	8¾	8⅝	8⅝	-⅜
4⅝	3⅛	Amre Inc	0.12	3.2	17	198	3⅞	3⅝	3¾	+⅛
32¾	29⅝	Amsouth	1.40	4.5	10	483	31	30¾	31¼	+⅜
4¾	3⅛	Anacomp			15	884	4	3⅞	4⅛	+⅛
57½	42⅛	Anadarko	0.30	0.5	78	3520	56	55	55⅛	+¼
31⅛	23¾	Analog			27	250	28¼	27⅞	27⅞	-¼
29⅜	24½	Angelica	0.94	3.7	23	82	25½	25¼	25½	
54⅞	47⅛	AnBsch x	1.44	2.7	24	2724	53⅝	53	53⅛	+11/16
26¾	25½	ANR PpePf	2.67	10.3		z100	26	26	26	
34	24⅝	Anthem			17	154	25	24⅞	25⅛	
18¾	14¾	Anthony In	0.44	2.9	15	z100	15	15	15	
52½	45	Aon Cp x	1.92	4.2	10	402	45⅞	45¼	45⅞	-¼
29	22¼	Apache Crp	0.28	1.1	37	1083	27	26¼	26¼	-⅝
10⅝	9½	Apex Mun F	0.73	7.3		172	10	10	10	+⅛
18⅛	14⅛	APH			30	2186	u18½	17⅞	17⅝	-⅜
7⅜	5	Appld Mag			1	150	5½	5¼	5⅜	
22⅝	16¼	Appl Pw A	0.12	0.6	33	83	21	20¾	20½	-½
27⅛	22⅜	ArchDn x	0.10	0.4	16	3481	22⅞	22⅝	22⅝	-¼
50½	43⅛	Arco Cheml x	2.50	5.5	20	164	46⅛	45⅝	45¾	-⅛
9	6¼	Arida	0.28	4.3	25	2184	6⅝	6½	6½	
40	35	Arida Pf	3.00	8.4		z100	35¾	35¾	35¾	-⅛
51⅞	47	Armco 4.5P	4.50	9.2		4	49	48½	49	+⅝
5⅞	4½	Armco			1	1612	4⅞	4¾	4⅞	+⅛
29	23⅛	Armco 2.1P	2.10	8.7		5	24⅛	24⅛	24⅛	
57½	49⅝	ArmstW x	1.28	2.3	42	491	56¼	55⅞	55½	-⅜
45⅛	33⅝	Arrow Elec			15	376	37⅞	36¾	37	-⅞
7¾	4⅜	Artra Grp			2	15	5½	5½	5½	-⅛
33¾	26⅜	Arvin Ind	0.76	2.9	14	333	26¾	d26	26⅛	-½
27⅝	21⅜	Asarco	0.40	1.6	75	785	24⅞	24⅝	24¾	-⅜
31¼	27	Ashld Coal	0.40	1.4	11	81	28	27⅝	28	+¾
44½	34	AshOil	1.00	2.5	14	2027	40⅛	39½	39¾	-¼
25⅝	16⅜	Asia Pac F	0.27	1.4		31	18⅞	18¾	18¾	
2⅞	1⅞	Asset Invr	0.20	6.7	1	1287	u3	2⅞	3	+⅛
36⅜	31¼	Ass Nt Gas	0.12	0.3	23	24	35⅛	34¾	35⅛	+⅛
57⅛	49½	AT&T	1.32	2.5		16605	52⅞	52¼	52⅞	+¼
263½	228½	Atl Rich 2	2.80	1.2		z100	227	227	227	
38⅞	34	Atlnta Gas	2.08	5.8	15	62	35⅞	35¾	35¾	-¼
9¼	6¾	Atlnta Sos	0.28	4.0	7	2	7	7	7	
21¾	16¾	Atlntc Egy	1.54	7.4	11	487	21¼	20¾	20⅞	-½
112⅛	92½	AtlRich	5.50	5.7	58	3397	96½	96	96⅞	+1¾
10	4¼	Atlas			1	99	8	7¾	7⅞	-⅛
38⅛	25¾	Atmos Engy	0.88	2.9	14	99	u30¼	29⅞	29⅞	-⅛
12½	8¼	Attwds ADR	0.46	4.7	4	320	9⅞	9⅝	9⅞	+⅜
24⅜	17½	Augat	0.40	1.9	25	338	21⅞	21⅜	21⅜	-⅜
12⅜	9	Austria Fd	0.10	1.0		38	10	9⅞	9⅞	
55½	47⅝	AuData	0.52	1.0	23	1287	51⅝	50¾	51½	-⅛
20¼	14½	Avemco	0.44	3.0	11	4	14¾	14¾	14¾	-⅛
19	14¾	Avnall	0.04	0.3	3	1108	15¼	15	14⅞	
45	34¾	Avnet	0.60	1.7	18	1719	34⅞	d34⅝	34⅞	
61¾	48⅜	AvonPr	1.80	3.0	17	1451	59½	59⅛	59⅛	-⅜
14¾	11¾	Aydin Corp			12	28	12	11⅞	12	
7⅞	5⅞	Aztar			23	673	6⅞	6½	6⅝	-⅛

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1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38¼	34¼	BCE	2.68	7.5	237	1987	35¾	35⅝	35⅝	-⅛
9½	7	BET ADR	0.15	2.0	31	291	7½	7⅜	7½	+¼
3⅞	3	Balmco	0.20	5.5	6	49	3⅝	3½	3⅝	
17⅞	16¼	Baker Fent	0.40	2.4		78	17	16⅞	17	+⅛
22⅛	17	BakerH x	0.46	2.5	43	6416	18½	18⅛	18½	+5/16
27⅛	22¾	Baldor Elc	0.40	1.6	23	44	24½	24⅜	24⅝	
30⅜	24⅜	BallCp	0.60	2.2	23	2645	27½	27	27⅝	+½
15¾	11⅜	BllyMd	0.05	0.4	17	222	11⅞	11⅞	12⅛	+⅛
9⅜	6⅜	Bally			16	520	6¾	6⅝	6¾	
25½	22⅜	BaltGE	1.48	6.2	12	880	24	23¾	24	+⅛
19½	13⅞	Banc Bnkcp	0.20	1.0	29	97	19⅜	19⅜	19⅜	
35½	31⅛	BncOne	1.24	3.9	10	6466	32½	31⅝	32	-¼
28	19⅛	BancFlrde			9	45	27⅝	27⅝	27¾	-⅛
25½	20¾	BancoBR V	1.54	6.6	8	202	23¾	23	23½	-½
11⅝	9½	BancoCentH x	0.72	6.6	5	17	11	11	10⅞	
32	27	BcpHawall	1.04	3.4	7	135	31⅛	31	30¾	-⅜
1¾	1¼	BancTexas			45	87	1⅜	1⅜	1⅜	-⅛
63½	40⅛	Bandag	0.70	1.3	15	598	52¾	52½	52⅝	+¼
48⅞	38⅜	BankAm	1.60	3.6	9	11255	44½	43⅞	44¼	+¼
96	87	Bank Bost	5.56	6.3		z100	88¼	88¼	88¼	
28½	22⅛	BkBostn x	0.88	3.4	11	3870	u26½	25⅞	26	+⅞
49¼	47¼	Bk Bostn P	3.04	6.4		7	47½	d47¼	47½	+⅛
59½	49⅞	BankNY	2.20	4.0	9	905	55⅞	55½	55⅝	-¼
50½	48⅛	BankAm A	3.25	6.6		9	49	49	48⅞	-⅛
95	88	BankAm B	6.00	6.7		z100	89	89	89	+½
84⅝	66½	BnkTst	3.60	5.2	5	3143	69⅞	69¼	69½	+1
38¼	30	Bclays	1.28	4.1	91	z100	31⅛	31⅛	31⅛	-⅛
30½	22⅜	Bard (C R) x	0.56	2.3	20	556	24⅛	24	24⅜	+¼
34	29½	Barnes Grp	1.40	4.2	48	74	33⅝	33⅝	33⅝	-¼
48⅛	39¾	BarnBk	1.44	3.1	11	1932	46	45⅝	45¾	
12½	6⅞	BattlMt	0.05	0.5	190	870	9¾	9½	9½	-¼
53⅞	42⅝	Bausch	0.98	2.1	18	3360	48	47¾	47¾	+½
24¾	21⅝	Baxter	1.00	4.1	35	11154	24⅜	24	24½	+⅜
28⅜	23⅝	Bay St Gas	1.48	5.8	15	27	25	24⅞	25	
22½	19⅛	Bd Tr 1838	1.72	8.3		16	20¾	20½	20⅝	+⅛
24⅝	18½	Bear Stms	0.60	2.8	6	1743	21⅜	20⅞	21⅛	+⅛
50	48½	BearStPfA	2.83	5.7		2	49⅛	49⅜	49⅜	

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4 pm close May 3

NYSE COMPOSITE PRICES

Continued from previous page

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NASDAQ NATIONAL MARKET

4 pm close May 3

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	18	22	14½	13¾	14	-½
ACC Corp	0.12	86	313	21¾	21	20¾	-¾
Acclaim E		18	1823	14¼	13⅞	13⅞	-¼
Acme Mtls		21	161	25¾	25¼	25¼	
Acxiom Cp		29	88	20½	d20	20¾	+¼
Adaptech		16	7508	17⅝	16⅞	16⅞	-⅛
ADC Tele		34	1021	42½	40¼	41	-1
Addington		14	586	15½	14¾	15½	+¾
Adia Serv	0.16	22	139	u37¼	37	37¼	+1
Adobe Sys	0.20	22	4551	27⅞	27	27	-½
Advance C		8	149	13¾	13⅜	13⅜	-⅜
Adv Logic		8	93	5¼	5⅛	5$\frac{7}{32}$	+$\frac{3}{32}$
Adv Polym		7	262	5⅝	5⅜	5⅝	+⅜
AdvTchLab		27	289	15½	15	15⅜	+1⅛
Advanta	0.20	18	2295	u39	38	38¼	-¼
Affymax		10	38	14¼	13¾	14⅛	+⅜
Agency Re		21	905	13	12⅞	12$\frac{15}{16}$	+$\frac{1}{16}$
AgnicoEa	0.10	118	400	10⅞	10⅝	10⅝	-⅛
AirExpr	0.20	14	534	21¾	21¼	21½	-¼
Akzo ADR x	2.60	22	345	u61⅝	61¼	61½	+⅛
Aldus Cp		42	1159	30⅛	29¾	29⅝	-¼
AlexBld	0.86	17	351	25	24½	24¾	+¼
Allegh &W		16	47	8⅛	8⅛	8	-⅛
Allen Org	0.52	13	z100	u34	34	34	
Alias Ph		6	1723	u11¼	10¾	10¾	-$\frac{1}{16}$
AlldCapll	1.00	12	126	14¼	13¾	14	+¼
Alld Cap	0.80	12	217	14½	14	14	-¼
Aloette C	0.32	48	110	3⅞	3⅞	3⅞	
Alta Gold	0.06	5	302	1⅛	1$\frac{1}{32}$	1⅛	
Altera Co		37	9439	38¾	36¾	37½	-1⅜
Am Banker	0.68	8	443	22¾	21⅞	21⅞	-½

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AMEX COMPOSITE PRICES

4 pm close May 3

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Calprop		1	10	⅞	⅞	⅞	
Cambrex	0.20	13	80	22	20¾	22	+1⅛
Can Marc	0.28	21	9	11⅞	11⅞	11⅞	
Chembra A	0.01	7	1108	3$\frac{7}{16}$	3$\frac{7}{16}$	3$\frac{7}{16}$	-⅛
Chambers		7	4	3½	d3½	3½	
Champion		50	614	34⅝	33⅞	34⅛	+⅞
Chiles		218	2850	4¼	4	4⅞	+⅛
CircPh	0.04	28	280	11⅛	10¾	10¾	-¼
Cmfd FdA	8.01		315	5¼	5¼	5⅛	-⅛
Cominco	0.30	20	5	15⅞	15¾	15¾	

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Garan	0.80	8	14	27⅛	26⅞	26⅞	-⅛
Giant FdA	0.72	14	749	22¼	22	21⅞	-⅜
GlatStr	0.70	34	206	15⅞	15⅝	15⅝	+⅛
Goldfield		3	20	½	d½	½	-$\frac{1}{16}$
Greenman		32	3	6¼	6¼	6¼	
Gulf Cda	0.34	21	15	3⅝	3$\frac{9}{16}$	3$\frac{9}{16}$	-⅛
HanDir		38	791	6½	6¼	6¼	+⅛
Hasbro x	0.28	15	1891	34¼	33¾	33¾	-½
Health Ch		5	33	3⅝	3$\frac{5}{16}$	3$\frac{5}{16}$	-$\frac{1}{16}$

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Nat Pat		6	383	3¼	3⅛	3⅛	-⅛
NY TmA	0.56	362	6468	25½	d25	25⅜	
NthCanOil	0.28	11	17	9½	9	9½	+⅜
NumacE		120	105	6⅛	5⅞	6	+⅛
NVR		12	10	8¾	8¾	8¾	
Odetics A		34	135	u9¾	d9¼	9¾	
Olsten	0.24	152	692	32⅝	32⅛	32	-⅜
Pegasus G	0.40	88	388	16¼	15	15⅞	-½
Perini	0.80	51	64	12⅞	12¾	12⅞	+⅜

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
UnivPtnts		17	9	6⅛	6	6⅛	
US Cellul		90	74	26⅛	25⅝	26⅛	+⅝
ViacomA		20	742	26¼	25½	26⅛	+½
ViacomB			3523	24¼	22¾	24¼	+1½
Weatherfd		26	2195	10⅞	10¾	10⅞	
Westamer	0.60	24	313	28¾	28⅜	28½	
WRET	1.12	18	147	12⅞	12¾	12⅝	-⅛
Worthen	0.60	10	123	23	22¼	22⅞	+⅞
Xytronix		4	86	3$\frac{13}{16}$	3$\frac{11}{16}$	3$\frac{13}{16}$	

AMERICA

US mixed on news of Kodak restructuring

Wall Street

US stocks were mixed yesterday morning, as news of Kodak's restructuring and a second big healthcare acquisition provided a diversion from lingering concerns over interest rates, *writes Frank McGurty in New York*.

By 1 pm, the Dow Jones Industrial Average was 4.16 lower at 3,696.86, while the more broadly based Standard & Poor's 500 dipped 0.91 to 452.11 in thin trading.

In the secondary markets, the American SE composite was 1.24 better at 441.44, but the Nasdaq composite eased 2.39 to 738.29.

Stocks meandered in a narrow range on either side of their opening levels during the morning.

The day's only fresh economic news – the leading indicators for March – came in a little higher than expected, but not enough to encourage any sustained buying and selling trend.

The Commerce Department said the index, designed to predict future economic trends, climbed 0.7 per cent, against the Wall Street consensus forecast of 0.6 per cent. The February reading was revised to unchanged, from a 0.1 per cent decline.

Developments in the bond market were not encouraging, as the 30-year benchmark government issue slipped again. But trading was thin, with many accounts remaining on the sidelines ahead Friday's employment data for April, a keenly awaited barometer of economic strength and inflationary pressures.

The overall mood in bonds and stocks was subdued, with the Federal Reserve's next move to lift rates expected soon.

Kodak, however, brought some cheer to what could have been a rather dull market. The stock climbed $2⅜ to $46⅞ after announcing that it would sell-off three non-core businesses, including its Sterling Winthrop over-the-counter drug subsidiary.

It was the second consecutive session driven by news of takeovers in the pharmaceuticals sector. On Monday, Roche Holding agreed to pay $5.3bn for struggling Syntex, sending the latter's share price up sharply.

Yesterday, United Healthcare, one of the country's biggest health maintenance organisations, agreed to sell its drug-distribution business to SmithKline Beecham for $2.3bn in cash. The announcement pushed United Healthcare's stock $3 higher to $47⅛, while SmithKline ADRs added $⅝ to $31⅛.

Syntex led the NYSE's most active list, but it was trading just $⅛ lower at $23⅝.

Elsewhere, Value Health jumped $3¼ to $44½ after entering into an agreement with Pfizer to develop disease-management programmes and pursue other projects. Pfizer was unchanged at $61⅝.

On the Nasdaq, technology stocks slipped following the previous session's upturn. Wellfleet lost $3⅛ to $74½, Microsoft shed $1⅞ to $93⅞ and Lotus Development dropped $2¼ to $63⅞.

Canada

Toronto was mixed in quiet midday trading which saw the TSE 300 index edge 0.52 higher to 4,282.85 in volume of 32.24m shares. Seven of Toronto's 14 sub-indices were stronger, led by the pipelines group which rose 28.02 to 4,070.14. Weak groups included gold and silver, down 68.16 to 9,301.28, and communications and media which lost 13.32 to 9,223.51.

Caracas recovers 6.8%

Venezuela

Shares on the Caracas stock exchange climbed strongly after the central bank said that it was to hold an auction of dollars in an attempt to ease pressure on the bolivar.

The Merinvest composite index rose 6.8 per cent to 112.39, recovering all of Monday's losses. Electricidad de Caracas put on 34.50 bolivars to 310 bolivars.

The currency has been under pressure since the resignation last week of the central bank president, Mrs Ruth de Krivoy, over a disagreement with the government regarding economic policy.

Analysts have maintained that the country's financial markets will remain volatile until the central bank introduces measures designed to tackle inflation and the budget deficit. The government and central bank tried to calm the markets over the weekend with statements which ruled out immediate currency controls or devaluation.

Mexico

The stock market was easier in early trading after a rise in domestic interest rates at the weekly auction. The IPC index was off 20.54 or 1 per cent at 2,210.19 in volume of 7.6m shares. Brokers now see short-term technical support at the 2,200 level.

Interest rates on benchmark 28-day treasury bills or Cetes were raised by 24 basis points to 16.49 per cent.

Profit-taking in S.Africa

Equities were hit by a wave of profit-taking following impressive gains in the days leading up to last week's general election. The overall index lost 71 or 1.3 per cent to 5,291, industrials shed 31 to 6,384 and the gold index, lacking support from a flat bullion price, fell 64 or 3.2 per cent to 1,935.

● The Johannesburg stock exchange yesterday announced proposals for an "evolutionary", rather than "Big Bang" approach towards deregulation, and also said that it wished to enhance its role for international investors.

It added that foreign citizens should be allowed to become members provided certain criteria were met. A foreign corporation which obtained membership on the exchange would need to obtain local registration as an external company so that it would be subject to local court jurisdiction.

The euphoria surrounding South Africa's first all race elections propelled Johannesburg higher last week, continuing a rising trend seen this year as US funds have begun to flow into the market.

Analysts expect a measure of hesitancy in coming months as investors assess the new cabinet and the government's first budget.

In the medium term, good continuing economic growth prospects and a view that the ANC will want to co-operate with business should prove positivefor the stock market.

EUROPE

DSM up 3.3% as Amsterdam defies downtrend

Weakness in most senior bourses was offset by an intraday peak in Brussels, and a further rise in Stockholm, *writes Our Markets Staff*.

AMSTERDAM had some hopes of the general election, which was expected to result in a change of government, but most investors concentrated on results from DSM which exceeded all expectations. The chemical group's shares saw an all-time high of Fl 148 during the session before closing up Fl 4.70, or 3.3 per cent at Fl 145.

The AEX index improved 2.67 to 416.39. Attention turned to Philips, the electronics group, up Fl 1.60 to Fl 57.00 and due to announce its first quarter results today. Analysts were confidently expecting a strong rise in profits, helped by efforts to bring down the group's debt level; Hoare Govett estimated a 52 per cent rise in earnings per share.

FRANKFURT was unsettled by volatility in the bond market, and pulled back from Monday's highs by mounting concern about the impact of the weak dollar on exporters.

The Dax index fell 16.36 to 2,252.29, and while it recovered more than 9 points in the post bourse, there were fears that currency worries could weigh heavily again today. Turnover rose from DM7.9bn to DM9.6bn.

On the session, exporters lost ground and sectors associated with the domestic economy, like utilities and construction, moved up instead. In chemicals, Hoechst led the way down with a fall of DM6 to DM354. Daimler dropped DM14.50 to DM897.50.

Ms Heidemarie Höppner, at B Metzler, said that worries about export pricing were rife. "Not many industrialists are thought to have hedged their dollar positions," she said, "and there could be some nasty surprises, especially if the situation gets worse."

Meanwhile, Lufthansa rose DM5.80 to DM219.80: after hours the government called a news conference for today, on the long awaited privatisation of the flagship airline.

PARIS concentrated most of the day's activity on Elf Sanofi, following news that it might acquire Eastman Kodak's stake in Sterling Winthrop, as well as develop its pharmaceuticals strategy with further acquisitions. Sanofi lost FFr43 to FFr975, off a session low of FFr965.

The CAC-40 index eased 7.24 to 2,176.99 in low turnover of FFr2.8bn.

By contrast Peugeot rose FFr7 to FFr915, helped by data which confirmed a rise in April car sales.

Lafarge Coppée, the building materials company, put on FFr6.00 to FFr462.50 as it confirmed that it was selling its 61 per cent stake in Orsan, a biotechnology group, to Tate & Lyle of the UK.

ZURICH came under renewed foreign selling pressure, the SMI index falling 9.3 to 2,759.9.

Roche certificates fell SFr30 to SFr6,690 in response to its $5.3bn bid for Syntex, the US drugs group. Analysts, who noted that the bearers rose SFr230 to a year's high of SFr13,000, commented that much of the day's buying of both issues was by one private Zurich bank.

Mr Mirko Sangiorgio at Bank Julius Baer said that the impact of the deal on Roche's future financial income was unclear. He commented that in the short term, Roche appeared to have paid a high price in view of uncertainties about the value of Syntex's new product range. But in the three- to five-year term, the impact of Roche's distribution network and its management's contribution to Syntex's business made the deal look more positive.

Banks remained under pressure with UBS bearers down SFr24 at a year's low of SFr1,156. The bank said it planned to launch an ADR programme during the summer in response to growing foreign demand.

MILAN was weak, the Mibtel index falling 76 to 12,693. Goldman Sachs, however, maintained that a combination of earnings momentum, strong retail inflows, further rate cuts and the possibility of equity-friendly policy surprises should boost the market over the next year.

Fondiaria rose L1,031 or 6.6 per cent to L16,948 on speculation that Mediobanca might use some of the cash from its forthcoming rights issue to raise its stake. Mediobanca fell L1,072 to L17,697.

Montedison fell L26 to L1,545 and Ferruzzi lost L72 to L2,323 in response to their announcements of heavier than expected losses.

MADRID read more threats of politically sensitive disclosures from the former civil guard chief, incorporated the losses racked up by the Ibex index on other exchanges on Monday, and came back from holiday with a fall of 2.4 per cent, the general index closing 7.57 lower at 317.35.

Once again, speculation overrode caution in the case of Banesto, which hit Pta1,435 before closing at Pta1,380, up another Pta30 on the day.

BRUSSELS, briefly, broke through its all time high, the Bel-20 index touching 1,544.17 before it closed 17.40, or 1.1 per cent higher at 1,539.40.

Interest rate sensitive stocks, which have lagged behind the market, were among the biggest gainers. The utility, Electrabel, climbed BFr120 to BFr6,320.

STOCKHOLM recovered after a shaky opening as debt market yields eased late in the session and the market built expectations of strong corporate earnings to come. The Affärsvärlden index rose to 15.9 to 1,515.8.

Astra A shares added SKr5 to SKr165 while Electrolux B rose SKr15 to a year's high of SKr423.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

May 3							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1465.21	1463.77	1464.36	1465.80	1465.80	1468.35	1466.93	1465.36
FT-SE Eurotrack 200	1476.21	1472.57	1474.18	1475.24	1475.28	1473.39	1476.00	1473.07

	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25
FT-SE Eurotrack 100	1462.82	1465.96	1471.83	1464.12	1449.13
FT-SE Eurotrack 200	1476.69	1484.35	1492.74	1483.67	1457.22

Base 1000 (26/10/90); Highday: 100 - 1465.37; 200 - 1476.89 Lowday: 100 - 1463.76 200 - 1472.21

ASIA PACIFIC

Bombay falls sharply as VSNL withdraws $1bn issue

Individual stories coloured trading in the region yesterday, while Tokyo was closed for the Golden Week holiday. It reopens on Friday.

Following the sharp correction in many of the region's markets during the first quarter, Kleinwort Benson suggested that the worst appeared to be over.

In their latest global strategy report the investment bankers argued that while the rest of the year would not be easy, valuations had come down to "historically more acceptable levels".

They continued: "With a strengthening OECD recovery at their back, the Asian markets can expect more upward earnings revisions over the next 12 to 24 months."

Kleinworts selected Malaysia and Thailand as two of the region's markets worth buying, both being helped by export growth.

BOMBAY fell sharply following the withdrawal of a $1bn Euroissue by VSNL, the country's overseas telecommunications group.

The BSE index lost 47.21 to 3,673.51, with VSNL down Rs220 at Rs1,100.

The Euroissue of GDRs was to have been priced yesterday, with indications of a range between Rs1,400 and Rs1,600 per share. Brokers commented that the withdrawal would probably curtail similar issues which had been planned by a number of other smaller Indian companies.

HONG KONG fell 1.4 per cent, as a lack of demand continued to plague the market and any rebound was thought unlikely before the Japanese holiday was over.

The Hang Seng index fell 120.57 to 8,673.13, having been as much as 220 points lower in the afternoon before technical support emerged.

Property stocks remained under pressure. SHK Properties fell 75 cents to HK$44.25, while Henderson Land was 50 cents down at HK$37.25.

AUSTRALIA lost a little ground but activity was described as lacking direction in the absence of both the UK and Japanese markets. The All Ordinaries index closed 3.7 lower at 2,044.2 in turnover of A$367m.

In the media sector, News Corp shed 9 cents to A$9.49 ahead of its release of earnings today.

BHP lost 2 cents to A$16.90, although brokers commented that investors were generally unperturbed by reports that the group is to be sued for A$4bn by villagers in Papua New Guinea who have alleged that the Ok Tedi river has been polluted by the company.

KUALA LUMPUR was broadly lower, although shares of Golden Pharos were in demand amid rumours of a takeover and asset injection. The composite index closed down 12.48 at 1,042.02.

Golden Pharos rose 70 cents to M$9.65. A major shareholder sold its stake in the company last week, sparking speculation that a state government agency was the purchaser and planned to inject capital.

SEOUL edged lower in spite of some institutional buying interest in a number of blue chips. The composite index eased 1.71 to 917.55.

Most Hyundai group shares went up on the news that the founder, Chung Ju-yung, had decided to leave the business for good. Many investors believed that this would help to ease relationships between the group and government, and that it could result in a resumption of financing.

Both Hyundai Engineering and Construction and Hyundai Corp went limit up, gaining Won1,600 and Won1,000 to Won41,600 and Won25,900 respectively.

Samsung Electronics gained Won2,500 to Won85,500 and Goldstar Won1,000 to Won26,700 after their financial statements detailed better than expected profits.

MANILA saw heavy foreign buying which drove prices 1.8 per cent higher.

The composite index rose 53.48 to 2,937.93, the first time since February that the index has peaked above 2,900. Volume soared to 2.53bn shares from 1.12bn.

PLDT led gainers, closing 80 pesos higher at 1,850 pesos.

San Miguel A shares gained another 2 pesos to 178 pesos as it announced that it had won permission to sell or redevelop its Hong Kong brewery.

SINGAPORE was boosted by demand for a number of blue chips from institutional investors, although overall sentiment remained cautious.

The Straits Times Industrials index advanced 14.37 to 2,310.56.

KARACHI was stronger on the last day of the account, with the KSE index adding 6.11 to 2,384.96, supported by buying of blue chips.

NEW ZEALAND was slightly easier with only Fletcher Challenge, among leading shares, reversing the trend with a gain of 4 cents to NZ$3.40.

The NZSE-40 capital index shed 10.56 to 2,066.58. Turnover was NZ$31.2m.

COLOMBO sustained its second successive record decline, on political and economic uncertainty, the all share index losing 48.24 to 1,002.61 for a two-day loss of 8.7 per cent.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1994	% change sterling † Start of 1994	% change in US $ † Start of 1994
Austria	+0.16	-2.06	+32.86	-7.46	-5.24	-2.88
Belgium	+1.45	+3.61	+22.11	+0.63	+4.07	+6.66
Denmark	+2.88	-0.42	+31.92	+2.94	+4.98	+7.58
Finland	+2.47	+5.89	+57.02	+15.11	+21.15	+24.16
France	+1.49	+3.33	+16.78	-3.39	-2.01	+0.43
Germany	+1.01	+4.69	+33.49	-1.49	+0.73	+3.24
Ireland	+0.99	+3.76	+23.96	-0.25	+1.76	+4.29
Italy	+2.98	+7.88	+49.37	+29.83	+36.45	+39.83
Netherlands	-1.45	+3.68	+27.26	-1.78	+0.10	+2.58
Norway	-0.47	+0.38	+28.83	+4.48	+6.66	+8.31
Spain	+1.89	+2.50	+28.65	-1.75	+1.50	+4.02
Sweden	+1.30	+5.96	+35.84	+3.90	+10.47	+13.21
Switzerland	-1.65	-1.59	+31.04	-5.59	-2.80	-0.38
UK	-0.24	+1.27	+13.55	-7.30	-7.30	-4.99
EUROPE	+0.39	+2.56	+23.00	-2.56	-0.92	+1.55
Australia	+1.03	+1.06	+20.43	-4.73	-2.29	+0.14
Hong Kong	-2.07	-2.18	+32.18	-25.11	-26.90	-25.08
Japan	-0.79	+2.22	+0.66	+10.29	+18.34	+21.29
Malaysia	-0.49	+9.15	+61.26	-17.97	-19.51	-17.51
New Zealand	+0.90	+3.23	+27.45	-4.84	-4.31	-1.93
Singapore	+1.88	+12.92	+37.81	-8.74	-7.86	-5.57
Canada	+2.51	-0.47	+11.13	-0.25	-6.71	-4.39
USA	+0.74	+1.17	+2.58	-3.24	-5.59	-3.24
Mexico	+10.12	-3.40	+43.15	-10.26	-16.83	-14.76
South Africa	+7.17	+10.79	+47.91	+10.76	+0.24	+2.73
WORLD INDEX	+0.30	+1.95	+8.81	-0.19	+1.06	+3.58

† Based on April 29th 1994. Copyright, The Financial Times Limited, Goldman, Sachs & Co.,and NatWest Securities Limited.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 2 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY APRIL 29 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	165.32	-1.1	161.41	106.36	141.83	154.44	-0.9	3.55	167.10	163.39	107.20	143.85	155.78	189.15	130.19	137.50
Austria (17)	181.88	1.2	177.57	117.01	156.03	155.87	1.1	1.00	179.65	175.66	115.25	154.76	154.11	195.41	139.63	142.10
Belgium (42)	174.02	0.3	169.90	111.95	149.28	145.93	0.0	3.75	173.48	169.62	111.29	149.44	145.93	174.02	141.92	148.52
Canada (106)	130.20	0.3	127.12	83.76	111.70	130.25	0.3	2.59	129.83	126.94	83.29	111.84	129.87	145.31	121.46	127.86
Denmark (32)	265.49	-0.2	259.21	170.80	227.75	233.30	-0.8	1.02	265.96	260.05	170.62	229.11	235.17	275.79	207.58	214.22
Finland (22)	154.06	0.7	150.41	99.11	132.16	172.32	0.0	0.87	152.96	149.56	98.12	131.77	172.36	158.72	85.54	97.34
France (98)	179.01	1.3	174.77	115.16	153.56	158.66	0.8	2.80	176.72	172.79	113.37	152.24	157.46	185.37	149.60	161.81
Germany (58)	147.07	1.6	143.59	94.62	126.17	126.17	1.2	1.63	144.78	141.56	92.88	124.72	124.72	147.07	107.59	113.21
Hong Kong (56)	360.20	-1.8	351.68	231.73	309.01	357.24	-1.7	2.98	366.60	358.45	235.18	315.82	363.57	506.56	271.42	276.50
Ireland (14)	194.07	0.5	189.48	124.85	166.49	184.73	0.0	3.26	193.15	188.86	123.91	166.39	184.73	209.33	155.93	162.90
Italy (60)	96.03	0.1	93.76	61.78	82.38	113.65	0.0	1.52	95.91	93.78	61.53	82.62	113.86	96.03	57.88	67.12
Japan (469)	156.41	-0.9	152.71	100.62	134.18	100.62	-0.6	0.80	157.83	154.32	101.25	135.97	101.25	165.91	124.54	145.46
Malaysia (98)	488.25	0.1	476.71	314.11	418.86	503.46	0.0	1.35	487.96	477.11	313.03	420.36	503.46	621.63	312.51	321.79
Mexico (18)	2005.07	-1.5	1957.66	1289.93	1720.08	7157.68	-1.8	0.70	2035.33	1990.06	1305.66	1753.33	7276.80	2647.06	1431.17	1494.55
Netherland (26)	204.11	-0.1	199.29	131.31	175.11	172.48	-0.5	3.26	204.25	199.71	131.03	175.96	173.35	207.43	163.30	167.19
New Zealand (14)	66.16	-0.7	64.60	42.57	56.76	60.85	-0.8	3.92	66.60	65.12	42.72	57.37	61.34	77.59	46.43	48.53
Norway (23)	194.41	-1.0	189.81	125.07	166.77	188.70	-1.5	1.76	196.36	191.99	125.96	169.15	191.59	206.42	150.61	163.71
Singapore (44)	347.28	0.1	339.05	223.40	297.91	248.70	0.0	1.62	347.06	339.34	222.64	298.98	248.70	378.92	238.62	243.46
South Africa (59)	*275.09*	*0.2*	*268.58*	*176.97*	*235.99*	*277.18*	*-0.1*	*2.23*	*274.45*	*268.35*	*176.06*	*236.43*	*277.44*	*280.26*	*175.93*	*166.31*
Spain (42)	144.02	-0.6	140.61	92.65	123.55	147.10	-0.8	4.05	144.95	141.73	92.98	124.87	148.24	165.79	116.33	131.71
Sweden (36)	226.33	1.8	220.98	145.61	194.17	254.95	1.3	1.66	222.32	217.38	142.62	191.53	251.76	230.02	163.85	171.97
Switzerland (48)	161.89	1.5	158.06	104.15	138.88	140.75	1.1	1.89	159.53	155.98	102.34	137.43	139.20	176.56	120.01	120.01
United Kingdom (205)	195.09	0.1	190.47	125.51	167.36	190.47	0.0	3.86	194.81	190.47	124.97	167.82	190.47	214.98	170.32	179.19
USA (519)	184.72	0.5	180.35	118.84	158.46	184.72	0.5	2.88	183.76	179.67	117.88	158.30	183.76	196.04	178.85	178.68
EUROPE (723)	*173.30*	*0.8*	*169.20*	*111.49*	*148.67*	*161.38*	*0.3*	*2.86*	*172.20*	*168.37*	*110.47*	*148.34*	*160.84*	*178.58*	*141.58*	*146.49*
Nordic (113)	216.35	1.0	211.23	139.18	185.60	213.34	0.4	1.35	214.19	209.43	137.40	184.51	212.43	220.80	155.82	163.84
Pacific Basin (760)	164.35	-0.9	160.46	105.73	140.99	110.56	-0.7	1.09	165.85	162.17	106.40	142.88	111.31	168.80	134.79	148.93
Euro-Pacific (1473)	167.92	-0.2	163.94	108.03	144.05	130.32	-0.2	1.65	168.34	164.59	107.99	145.02	130.63	170.78	141.98	147.81
North America (625)	181.33	0.5	177.05	116.66	155.56	180.95	0.5	2.88	180.41	176.40	115.73	155.42	180.03	192.73	175.67	176.46
Europe Ex. UK (518)	157.47	0.9	153.74	101.30	135.08	142.91	0.5	2.26	156.01	152.54	100.08	134.40	142.16	157.47	122.37	126.33
Pacific Ex. Japan (281)	242.77	-1.0	237.03	156.19	208.27	221.85	-0.9	2.69	245.12	239.67	157.24	211.16	223.90	296.21	181.48	183.97
World Ex. US (1656)	169.02	-0.2	165.03	108.74	145.00	133.56	-0.2	1.86	169.44	165.67	108.69	145.96	133.88	172.51	142.84	148.33
World Ex. UK (1970)	171.10	0.0	167.06	110.08	146.78	145.56	0.0	2.04	171.09	167.28	109.75	147.38	145.53	175.58	153.22	155.79
World Ex. So. Af. (2116)	172.60	0.0	168.52	111.04	148.07	148.63	0.0	2.22	172.56	168.73	110.70	148.66	148.59	178.66	155.00	157.76
World Ex. Japan (1706)	184.17	0.4	179.81	118.48	157.99	178.27	0.3	2.82	183.40	179.32	117.65	157.98	177.74	195.20	165.70	166.27
The World Index (2175)	173.22	0.0	169.13	111.44	148.60	149.60	0.0	2.22	173.18	169.33	111.10	149.18	149.56	176.97	155.17	157.85

Latest prices were unavailable for this edition. Markets closed 2/5/94: Belgium, Ireland, Malaysia, Singapore, Spain (Madrid) and (U.K.). Italian prices were unavailable due to problems at the exchange

صورة من الأصل

RESTRUCTURING OF EASTERN GERMANY

Wednesday May 4 1994

As German unification approaches its fourth anniversary, the scope of the changes undergone by the people of the former German Democratic Republic is becoming increasingly apparent.

There are the changes apparent to west Germans and to visitors as well as less noticeable but more deep-seated social effects. The infrastructure is improving before one's eyes, and western-style retailing and services – department stores, pharmacies, petrol stations and bakeries – have spread across the land.

No less dramatic but less obvious is the social impact on the 16m people, former citizens of the German Democratic Republic, who now find themselves attached to the most prosperous democracy in Europe. Because of the swiftness of the changes – ranging from the switch to the Deutsche Mark and privatisation to the arrival of large scale unemployment – east Germans have had little time to adjust and few opportunities to influence the changes. The initial euphoria of unification has given way to disorientation.

The independent citizens' committees, which grew up in East Germany during and in the wake of the peaceful revolution of autumn 1989, had hoped for greater consultation, particularly over the constitutional way in which the unification would take place.

There were two options. There was Article 146 of the west German Basic Law which provided that, in the case of unification, a new constitution would be framed and submitted to a popular vote. There was also Article 23, under which the former German Democratic Republic would simply be slotted into the existing constitution of the west German Federal Republic.

The federal government chose to implement Article 23 rather than the more cumbersome Article 146. That meant imposing on eastern Germany the west German status quo, and the entire complex of Bonn's laws and regulations, institutions and procedures.

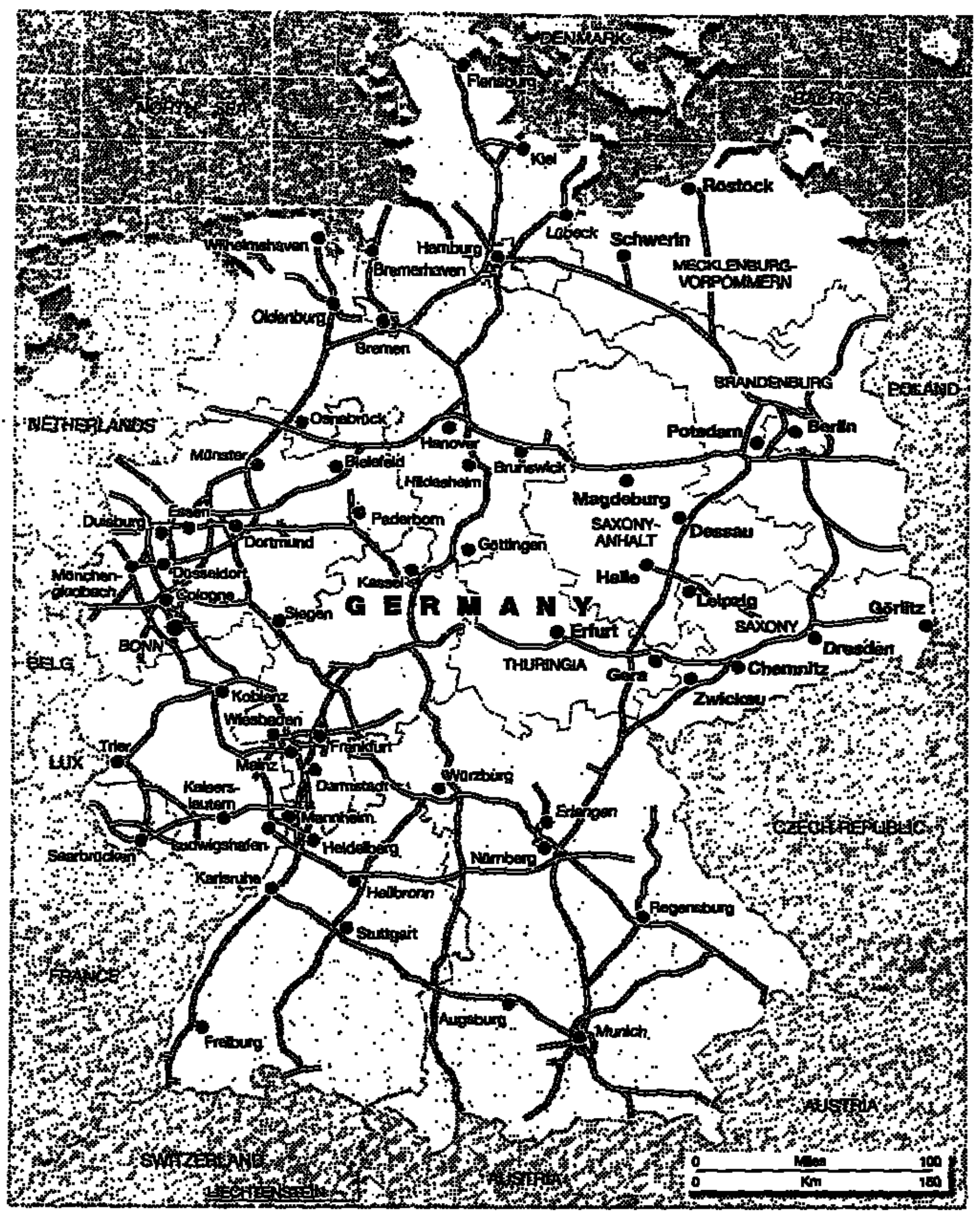
In taking this path, opportunities were missed by both sections of Germany. In western Germany, a debate, begun in the mid-1980s, on the need for more de-regulation and liberalisation of the economy, was interrupted. East Germans, already familiar with an all-present bureaucracy, had a feeling of being "colonised" by the westerners. This perpetuated their sense of exclusion from political decision-making and delayed the establishment of a civil society.

This sense of exclusion, coupled with the start of one of the most radical privatisation programmes undertaken anywhere, traumatised east German society in two dramatic ways: the birth rate nose-dived and people turned in on themselves.

Telecom systems are being rapidly updated in a DM60bn programme: see report, Page Five

Demolition makes way for the new: an old industrial site being cleared up in Brandenburg

Pictures by Paul Glaser



Positive signs – but still a long way to go

There are indications that eastern Germany is slowly emerging from an economic trough, but for the 16m people of the region the initial euphoria of unification has given way to disorientation, reports Judy Dempsey

According to Nicholas Eberstadt, a US demographer, "eastern Germany's adults have come as close to a temporary suspension of child-bearing as any large population in the human experience." In 1992, for example, the birth rate had fallen by 55 per cent compared with 1989 when the Berlin Wall was breached. Over the same period, the marriage rate had fallen by 62 per cent. And compared with west Germany, the likelihood of an east German man aged between 30 and 44 of dying from injuries or suicide is 150 per cent higher than his western German counterpart.

These trends can be explained by the sudden prospect of women having no status in a country where 90 per cent of them had a job before unification; and equally the prospect of a man having no perspective for the future. East Germany's unemployed, including people on government job creation, retraining and early retirement schemes, represent 37 per cent of the working population.

These trends in turn have delayed the emergence of local political and social elites. Professor Jürgen Kocka, who teaches modern history at Berlin's Free University, says church membership is falling and east Germans, unlike westerners, are not joining associations or political parties. "They have completely withdrawn into themselves. Even the intellectual elite is not as active as it should be. There is a vacuum. I do not know how it is going to be filled."

Western Germany shares some responsibility for this vacuum. Energetic officials, whose promotion prospects had slowed down or had been blocked in the west, seized the opportunity of moving eastwards to help transfer new political structures to the region. At the same time, thousands of east German academics and teachers, managers and scientists, had been sacked because of their alleged links with the Stasi, or former east German secret police, or because jobs no longer existed. This created an immediate vacuum on the local level. The younger generation has not yet filled that vacuum, partly because the Stasi files remain open, making many people feel suspect; and partly because adapting to the economic upheaval is time consuming.

In spite of these traumatic effects of unification, the government has been able to maintain stability in eastern Germany largely through the massive transfers, which last year totalled DM170bn. Over a third is spent on subsidising consumption in eastern Germany, whose collapsed economy last year contributed no more than 9 per cent of the combined country's total Gross Domestic Product.

Yet there are signs that east Germans are slowly reconciling themselves to the new system. The initial spending spree of 1990 and 1991 has given way to habits reminiscent of west German society of the 1960s and the early 1970s.

In 1990, after monetary union, the level of east German households' financial assets was DM20,000 per household. After the consumer spending spree, private disposable per capita income in eastern Germany rose by 55.5 per cent between the second half of 1990 and the first half of 1993. In real terms, this represented an increase of 17 per cent. Boosted by west German transfers, the average income over the same period has reached 55 per cent of west German levels.

At the same time, the propensity for east German households to save is similar to that of west Germans. According to the Bundesbank, savings last year took 13 per cent of their disposable income, compared with 14 per cent in western Germany, and the financial assets in eastern Germany totalled DM190bn, or DM30,000 per household. This represents the average amount reached by west German households in the first half of ther 1970s.

These developments suggest that east Germans, particularly those in work, are protecting themselves against future unemployment; adapting to the market, and west German habits; and are comparatively well off, taking into account the transfers which underpin these assets, and the conditions of former communist countries. These factors reinforce stability.

But the real test facing the east Germans is at what point their economy will start producing goods which can be competitive on the west German and international market.

Much will depend on the level of west German and foreign investment. For the first time since unification, investment per capita in the east exceeded the level in the west. Economists argue that these investment levels will have to be maintained for at least another five years to modernise the infrastructure and create a highly qualified labour force. They add that the more investments are targeted on the highest levels of technology, the greater the chance of higher output and productivity.

The other positive trend is that production has finally risen faster than overall demand after stagnating output had been steadily outstripped by a growth in demand fuelled by transfers from the west since 1990. Industrial orders also show signs of picking up. But industrial production is still less than 40 per cent of its former level before unification. Recovery is coming from a very low base.

Any sustained recovery, and a growth in competitiveness, will also depend on much higher levels of productivity. Productivity levels are on average between 30 per cent and 40 per cent of western levels, while wages are about 80 per cent of those in western Germany, and are set to match western German levels by 1996. This means that labour unit costs in the east are 70 per cent higher than in western Germany.

To reach west German productivity levels, the government might have to tolerate even higher unemployment levels, (or even indirectly subsidise the newly privatised sector through more tax breaks) while continuing to maintain the current levels of transfers to support consumption and the unemployed.

Over time, some of the unemployed might be absorbed by the Handwerk, or small crafts sector, the one area where east Germans are becoming economically engaged. Last year, more than 1m people were employed in 138,500 of these businesses, 20 per cent more than the previous year.

But none of these trends indicate that eastern Germany is moving anywhere close to becoming a self-sustaining economy. What they do suggest is that the region is slowly coming out of the trough of the last three years; and that the small emerging entrepreneurial class may in time help foster a new political class in eastern Germany. Then, east Germans might be in a position to contribute to the long overdue political and economic debate in their country. But they will not be in a position to live without transfers for many years to come.

RESTRUCTURING OF EASTERN GERMANY 2

The economy will need another five years of massive investment, writes **Quentin Peel**

A slow climb from the abyss

In two crucial ways, 1993 was a turning point for the east German economy.

For the first time since German unification in October, 1990, and indeed since economic and monetary union on July 1 that year, production rose faster than overall demand in the former Communist territory. Up till then, stagnating output was steadily outstripped by a growth in demand fuelled by transfers from west Germany.

Secondly, and possibly more significant still, investment per capita in the east for the first time exceeded the level in the west.

Both indicators suggest that at last, after a period of free fall, followed by prolonged stagnation, the east German economy is just beginning the process of catching up on the wealthy west.

The question is, can the process be sustained? And if it can, how long will it take?

On the negative side, it is clear that east Germany is still far from generating the profits it needs to finance its own indigenous investment process: the so-called wage quota – the amount of national income devoted to wages and salaries – is more than 100 per cent. That means no profits are being generated, and all investment is in effect financed by transfers from the west.

Those transfers held up remarkably well in 1993, but given the depth of the western recession, investment plans for 1994/95 are in some doubt. And just as east German industry is beginning to pick up, the recession is also squeezing consumer spending in its most important market.

The divergence of the two German economies, east and west, was and is enormous. The collapse of the east German economy happened within weeks of monetary union. West German industry moved in rapidly to fill the vacuum. And the fear is that the former Communist state's entire industrial base has been wiped out in the process, leaving the so-called new federal states in danger of becoming an industrial and economic backwater, an eastern Mezzogiorno on the fringes of western Europe.

The recovery of the eastern economy is still in the balance, but for the first time, positive signs of recovery are starting to multiply.

Mr Udo Ludwig, chief economist at the economic research institute in Halle – the first eastern institute to be set up since unification – sees the glass as half full. "We are in the middle of a recovery process borne by private and public investment," he says.

"They are installing modern productive capacity. It will amount to a real recovery when for the first time eastern products can supply most of eastern needs. And profits have to be big enough to provide for refinancing. The process will take a generation."

Mr Heiner Flassbeck, the chief economist at Berlin's economic research institute (DIW), tends to see the glass as half empty. "The catching up process has started in 1993, but it will be very difficult for east Germany to have a higher growth rate than west Germany over a prolonged period," he says. "At the best, they can expect to grow at the same rate, which means the chance of catching up is called into question.

"It is much easier to make profits in the west than in the east."

The hard-headed managers at Deutsche Bank have a rule of thumb for the survival prospects of new businesses: they call it the seven year rule.

"Our investigations show that only after seven years can one say an enterprise is really established," says Mr Udo Vorstius, a former manager in the western industrial heartland of the Ruhr, now transferred to run Deutsche Bank's operations in Halle, the east German equivalent.

"We are nowhere near that point here, especially as far as small businesses are concerned. It is clear that overall something is moving, but the nervous phase is far from over."

The evidence of catching up comes in the latest report by three independent economic research institutes* for the Economics Ministry, on the overall process of adjustment in eastern Germany.

The index of manufacturing production slumped from a level of 100 in the second half of 1990 (already well below the level in the first half) to a low point of 61.8 by the second quarter of 1992. From the first quarter of 1991 to the same quarter of 1993, it stayed around the same level.

Since then it has steadily recovered: to 67.7 in the second quarter of 1993, 72.7 by the third quarter, and 77.8 by the end of the year.

In the same period, industrial orders have also picked up appreciably: by the last quarter of 1993 to 91.8 per cent of the level in the second half of 1990. The orders are coming overwhelmingly from the domestic economy, with much less buoyancy in export orders, where eastern enterprises were overwhelmingly dependent on the east European and former Soviet markets.

On the downside, industrial production is still less than 40 per cent of its former level before unification, so the recovery is coming from a very low base. Unemployment stands officially at 1.26m, or 16.8 per cent of an already much reduced workforce, without taking into account several hundred thousand more on short-time working, job creation schemes and retraining. The overall number of economically active people has dropped over the period from nearly 10m to under 8m. The rest, many of them women, have simply left the labour market in despair.

The process of German unification has virtually turned the east German economy on its head. Not only has traditional industrial production collapsed, but the structure of east German industry and employment has been transformed as well. The process was one which many now believe was inevitable, yet which still took most observers in government and industry, as well as the professional economists, by surprise when it happened.

The initial collapse came immediately in the wake of monetary union: the exchange rate of one Ostmark for one D-Mark on July 1 meant an effective revaluation of more than 300 per cent for the currency relevant for the economic area of the GDR. At the same time, the open border with west Germany meant that eastern producers were faced with free competition from cheaper, higher quality western products. And eastern consumers showed an instant, and well-nigh blind preference for western products.

At the same time, there was an end to measures supporting trade with the eastern bloc, in effect, a second revaluation shock. The net production index dropped by 40 per cent before November, and a further 30 per cent up to March, 1991: from then until 1993, it stagnated at about one third of its pre-monetary union level.

The effect was compounded by a wage explosion. In 1989, the average monthly salary of an employee in east Germany was just under DM1,200, or roughly one third of western salaries. Already, in the first half of 1990, unions and enterprises agreed on wage increases of around 17 per cent.

The first round of collective wage negotiations in 1991 saw increases in negotiated wage contracts of around 60 per cent. The result was a dramatic deterioration in east German unit wage costs in relation to the west: around 20 per cent higher than those in west Germany immediately after currency union, they rose in 1991 to about 170 per cent of the western level, because of the combined effects of the drop in production and the high wage increases.

If the west German government and its eastern agent, the Treuhand privatisation agency, had hoped to preserve and privatise much of the supposedly efficient east German economy, the uncompetitiveness caused by those soaring unit wage costs put paid to it.

A more total collapse was only prevented by truly massive transfers of cash from the west, in the form of straight subsidies, instant infrastructure spending programmes, and huge transfers of unemployment and social security benefits. Total financial transfers rose from DM132.1bn in 1991 to around DM170bn last year.

The upheaval in east Germany has caused startling changes in its industrial structure in a very short time. The capital goods manufacturing sector has shrunk from about half overall industrial production to no more than two-fifths of the much lower output levels.

Mechanical engineering, which in 1990 provided 23.6 per cent of manufacturing output, was down to barely 11 per cent by the end of 1992. Electrical engineering was down from 15.7 to 12.1 per cent, and other *technologically leading sectors* – such as precision and optical instruments, and data processing equipment – all saw their importance reduced sharply.

In contrast, the growth sectors have been food and drinks (up from 12.6 to 18.1 per cent), anything to do with the construction industry, and services. Printing was the one industrial sector which was not affected by the initial collapse: the demand for information remained constant.

"The competitive structure of east German industry has still not crystallised," says Mr Ludwig. "It used to be dominated by capital goods. Now it is a manufacturing sector dominated by the food industry. That is not the structure of a developed country. But nor is it the final point. There is a lot of investment in vehicle manufacturing and electrical engineering. There are small signs that our export industry will recover."

There have also been huge changes in the structure of enterprise size: today the dominant size of enterprise is between 100 and 500 employees, in stark contrast to the huge kombinats which dominated communist industry.

The greatest area of largely unknown and unmeasured activity is among the smallest enterprises, the indigenous small businesses with fewer than 20 employees. "My guess is that they are already producing 15 to 20 per cent of what is produced in the measured sectors of industry," says Mr Ludwig.

Neither Mr Ludwig nor Mr Flassbeck believes that the future for east Germany is as a service industry economy. "There are no special services east Germany can offer," Mr Flassbeck says. "Take banking, insurance and other financial services: they all depend on someone earning money from industry.

"We don't have the tourist attractions of a Switzerland. Our future depends on having a highly qualified labour force, and an outstanding infrastructure.

"Recovery depends on how long we will continue to be able to afford to pump in subsidies at the present rate. I think we need to keep up this high investment activity for another five or six years, at least. But that means a huge amount of money, which many in the west do not think they can afford."

The two faces of Germany: contrasts in 1988

	GDR	FRG
Population	16.68m	61.72m
Working population	10.76m	40.90m
Percentage in manufacturing	50%	40%
Percentage in services	*21%*	*36%*
Unemployment (millions)	0	2.19m
Labour productivity	49%	100%
Primary energy consumption per capita (tera-joules)	*225 tj*	*185 tj*
Motorway network, (kms)	1,855kms	8,618kms
Registered private cars (millions)	3.7m	28.9m
Persons transported by air in bn passenger/kms	0.2	15.7
Net income per household, per month in Ostmark, DM	2,083	4,468
Living space, sq.km per person	25 sq.km	35 sq.km
Retail sales in bn Ostmark, DM	127	483
– foodstuffs, %	28%	29%
– shoes, clothing, %	16%	14%
– other industrial goods, %	35%	57%

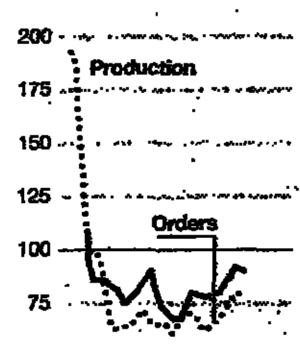
Source: DIW, Berlin

Financial transfers to East Germany (DMbn)

	1991	1992	1993
A: Transfers to state and government	111.6	124.4	128.0
– German Unity Fund	35.0	38.4	35.2
– Aufschwung Ost programme	12.0	12.0	–
– Central govt. spending	50.0	59.5	74.3
– Redistribution of VAT receipts *among federal states*	*10.8*	*11.5*	*12.5*
– Transfers by federal states	2.0	2.5	3.0
– Fiscal losses on tax allowances	1.0	2.5	3.0
B: Transfers to social insurance funds:			
– Unemployment insurance	20.5	31.8	40.0
– Pension insurance	–	–	2.0
– Total financial transfers	*132.1*	*156.2*	*170.0*

Sources: Federal Statistics Office, DIW

Manufacturing index



Source: Govt. and private estimates

Citizens pause for reflection in the centre of Dresden

Picture: Tony Andrews

How the East German economy matches up to the West

East German levels are shown as a percentage of the West German levels

	1991	1992	1993
Economically active population	24.7	21.5	21.1
Gross domestic product	8.9	8.4	9.7
Internal demand	14.3	16.6	18.8
Capital investment	15.4	19.5	24.4
Capital investment per capita	62.0	80.0	103.0
Gross wages per employee	47.6	62.1	65.5
Unit wage costs	163.7	155.2	144.3
Disposable income per capita	47.1	58.1	62.1

Source: Economics Ministry

The changing structure of production in the east German manufacturing sector*

	1990 (2nd half), %	1992 (2nd half), %
Manufacturing sector	100	100
Oil refining	2.2	4.4
Quarrying	4.8	6.0
Iron and steel products	2.6	2.4
Foundries	1.6	0.9
Structural metal products	5.2	12.4
Mechanical engineering	23.6	11.1
Road vehicles	3.3	3.2
Electrical engineering	15.7	12.1
Precision/optical instruments	2.4	1.5
Chemical products	8.3	7.2
Office machinery	1.3	0.3
Printing	1.6	3.5
Leather processing	1.2	0.4
Clothing and textiles	4.1	1.7
Food and beverages	12.6	18.1

**Selected sectors; data source – Federal Statistics Office, DIW*

Bank queues are shorter now. Above: shoppers in Grimmaische Strasse, Leipzig

Picture: Tony Andrews

David Waller reports on the banking revolution

Service with a smile

The transition from command economy to market economy in the east of Germany has been especially pronounced in the banking sector. Before unification there was no private sector banking industry at all – now the sector employs tens of thousands of people and provides a level of service to the customer which is more advanced than in the west.

"Before the wall came down customers came into their bank and got shouted at by the employees," recalls Mr Peter Krakow, chairman of the Leipzig Sparkasse, the biggest savings bank in the new federal states.

"There was no discretion whatsoever – and everybody else in the queue could listen in. People were profoundly suspicious of their banks, seeing them quite rightly as agents of the state. All this has changed."

As the bustling banking hall of the Leipzig Sparkasse shows, well turned-out employees now speak in respectful tones rather than barking out orders to terrified customers as if they were underlings. Those who do not want to stand in the queue can make use of an array of self-service machines in a separate room. Here, as elsewhere in the new federal states, the level of technology on offer is more sophisticated than at bank branches in the banking metropolis of Frankfurt.

According to the Bonn-based Federation of German Banks, there are now just under 100 private sector banks in the eastern states, with nearly 1,300 branches as at the end of last year employing 21,000 people. On top of that there are around 160 Sparkassen which employ 42,000 – twice as many people as before the wall came down. Then there are the Landesbanken – public sector commercial banks – which serve the new states in a series of complicated cross-shareholding and cooperation agreements with their western counterparts.

This is a dramatic change from communist days when the banking sector was divided between the Staatsbank – the state-owned bank which was part of the machinery of the command economy – and the Sparkassen. While Deutsche Bank and Dresdner Bank, the two biggest banks in the west, bought the old Staatsbank network, all other credit institutes have had to build up their branch networks from scratch.

By the end of 1993, private sector banks had invested DM4.5bn in buildings and fixed assets alone, excluding further hundreds of millions spent on intangibles such as training. The Federation of German Banks says that banks plan to spend a further DM1.5-2bn expanding their branch networks over the course of this year and next.

The commitment of the private sector banks to the east has not been without problems. Unpopular in the west of Germany at the best of times, banks are especially unpopular in the east where economic recovery is taking far longer than politicians promised at the time of reunification. The resentment is that much greater as a result of the banking sector's record profitability last year and, more recently, the failure of big banks to foresee the collapse of the Jürgen Schneider property empire which has put several thousand jobs in Leipzig at risk.

Mr Eberhard Martini, chief executive of the Bavaria-based Hypo-Bank and *outgoing* chairman of the Federation of German Banks, complained in March that banks were portrayed as "crisis-profiteers".

Bank staff now speak in respectful tones rather than barking out orders

He denied that the banks charged excessive fees in the east and, in an outspoken speech, he criticised Chancellor Helmut Kohl, Mrs Birgit Breuel – chairman of the Treuhand privatisation agency – as well as the press for the banks' poor image in the east.

His outburst follows the long-running dispute over the scale and the form of banks' commitment to the so-called Solidarity Pact. While banks have agreed to commit hundreds of millions to east German industry by means of direct participation in German industry, Chancellor Kohl has complained that the "bank billions" have not yet been forthcoming. As Martini said, the banks will only invest on normal commercial criteria and in the east these criteria are difficult to fulfil.

Therein lies the nub of banks' problems in the east: they are expected to fulfil a social role in the rebuilding of the new federal states while being obliged to shareholders to undertake only profitable business. Conditions in both commercial and retail banking are difficult. As Mr Martin Kohlhaussen, chief executive of Commerzbank, explained recently, "the risk for commercial customers is higher in the east ... we simply don't have the credit information and the company history which normally form the basis of a lending decision."

Not surprisingly, corporate customers complain about their treatment at the hands of the arrogant "wessis" or western Germans who still dominate the top management positions in the east-based banks. A poll conducted recently by the BDI Federal German Industry association of 1,000 east German businesses yielded a multitude of complaints about the banks, who were accused of being too conservative.

On the retail side, banks complain that they must pay higher deposit rates than in the west and invest more time and effort in providing advice to customers. Part of this is due to the Sparkassen, which have adapted rapidly and vigorously to capitalism with the help of partnership agreements with institutions in the west, with the result that they have managed to keep a market share of retail business higher than in the old federal states.

"The big western banks thought that they'd have it easy when they came here," chuckles Krakow at the Leipzig Sparkasse. "Of course we have lost customers and market share – but not on the scale that other banks were expecting."

The net result is that for many big commercial banks, the investment in the east has been substantial but as yet unprofitable.

Mr Hilmar Kopper, chief executive of the Deutsche Bank, said as the bank announced record 1993 profits, the bank has invested DM4bn to date in the east and has yet to make a pfennig of profit. Mindful of the long-term opportunities, Mr Kopper said he was not complaining about this.

Difficulties aside, institutions are using the east as a testing ground for new products and services.

The best example of this is the Hypo Service-Bank, a subsidiary of the Hypo-Bank which offers just nine basic retail banking products compared with the 60 products on offer at a normal bank branch.

As yet, this highly automised concept – designed to cut down on the costs of basic banking services at the same time as increasing the speed and efficiency of customer service – is only on offer in the east. It may be that this model will be copied throughout the western federal states.

Quentin Peel on the successes and failures of mass privatisation

Sale of the century ends

Karl-Heinz Rüsberg looks like a cross between a frantic factory manager and a slightly dotty professor, with a rumpled suit, laughing eyes, a shock of white hair, and the passion of a true believer.

He is probably the most successful single salesman in East Germany's "sale of the century", the wholesale disposal of the entire assets of the former communist state by the Treuhand privatisation agency.

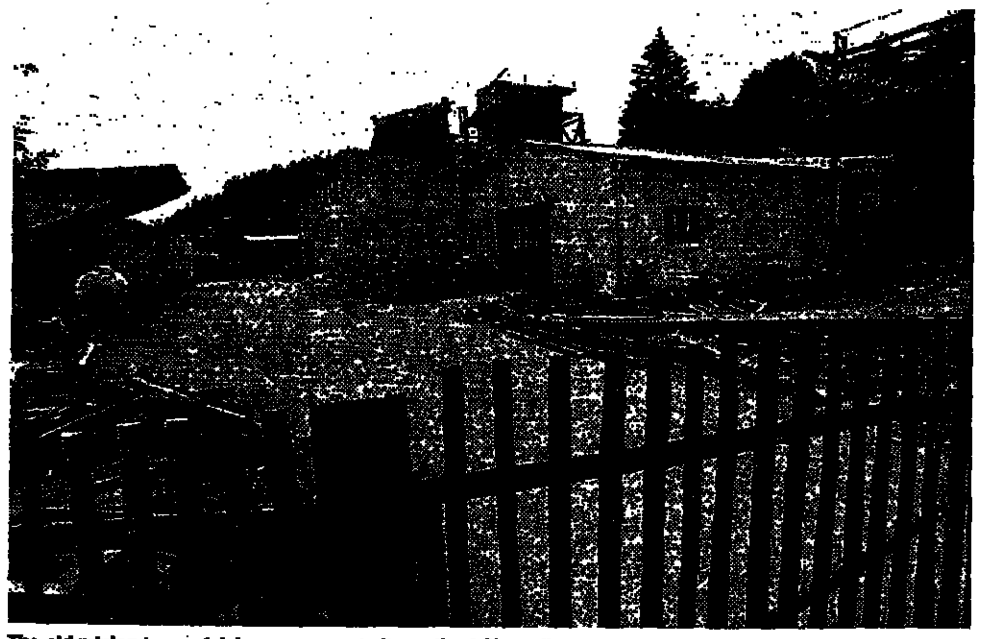
It is a process which has aroused furious passions both in favour and against it, and a truly extraordinary exercise which will leave the achievements of the Treuhand the subject of agonised debate for years to come.

On the one hand, the agency has presided over the restructuring of a hopelessly uncompetitive communist economy, involving the break-up and reorganisation of vast industrial empires and agricultural estates.

It has sold almost 13,500 separate companies in rather less than four years, for net proceeds of around DM30bn. By the end of 1994, when it is formally wound up, all but 100 will be in private hands. It will have successfully raised some DM230bn in loans on the national and international capital markets to finance the process, with another DM45bn needed to pay for its remaining obligations.

On the other, the Treuhand has seen the numbers employed by its enterprises slashed by hundreds of thousands, and the industrial structure of east Germany transformed from the showpiece of the communist world to a rump of struggling enterprises, whose future in the cold capitalist market is still not assured.

Instead of realising a positive balance for the German exchequer from the sale – once casually estimated by Mr Detlef Karsten Rohwedder, the first Treuhand president, at "around DM600bn" – it will leave a debt burden to the federal government of at least DM275bn.



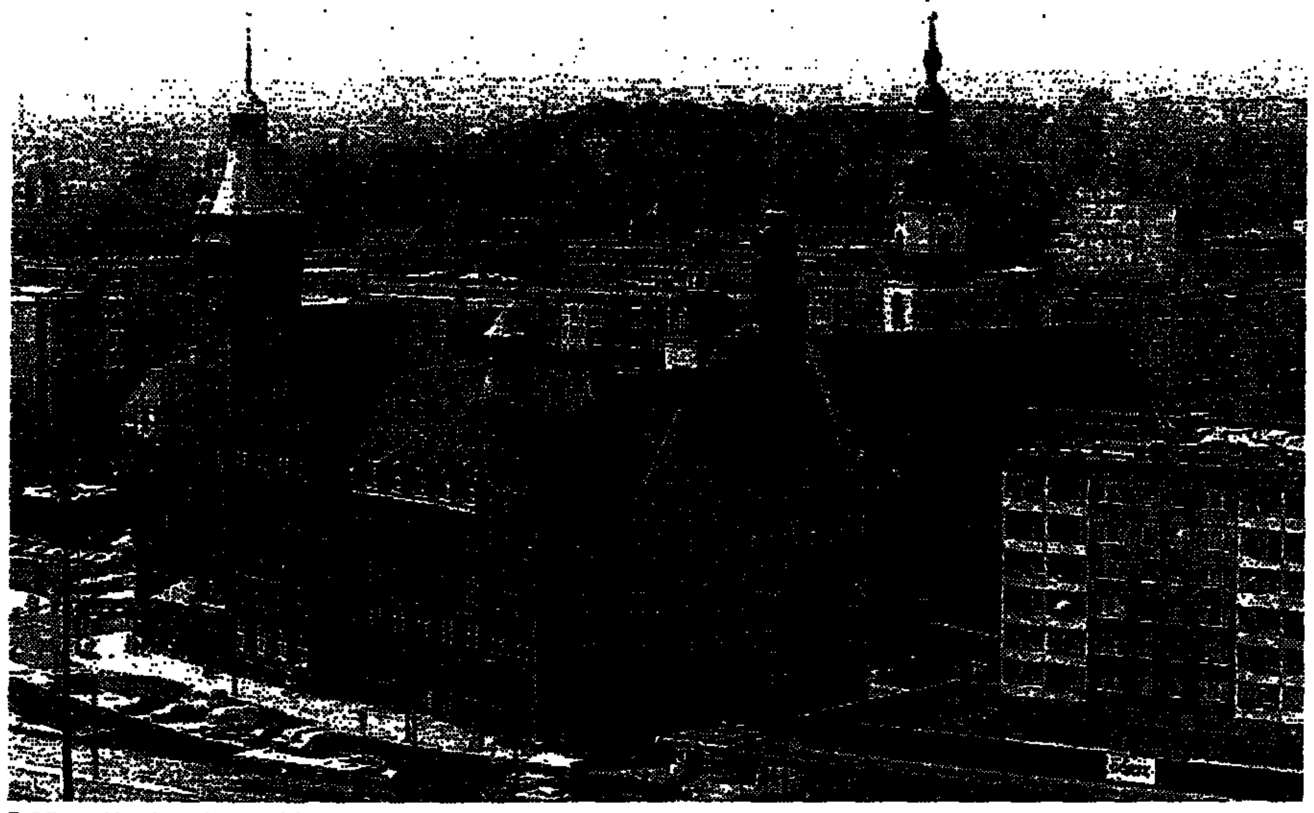
The old mining town of Johanngeorgenstadt, south of Chemnitz — Picture: Tony Andrews

Mr Rüsberg remains convinced that the exercise has been overwhelmingly positive and successful, in spite of inevitable mistakes. He is a believer.

"You cannot succeed in this job unless you work as a man possessed," he says, as he rakes through his files for the prospectuses of the last few companies still on his books. "Perhaps there is a certain nostalgia now, as our job is coming to an end. But we can be happy to have been involved in this unique work."

Then he reels off statistics of his successes and failures, of the remarkable products which east German companies are still capable of producing, the quality of the workforce, and some of the mistakes which have been made along the way of seeking to transform a totalitarian socialist economy into a capitalist one.

Mr Rüsberg is regional manager for the Treuhand in Halle, an historic but grimy centre of east Germany's chemical industry, and he is not there by chance. It is the last regional office still in operation, and Mr Rüsberg has been sent to clean up a disastrous, incompetent and corrupt privatisation process in the area.



Buildings old and new in central Chemnitz — Picture: Tony Andrews

Two of the main purchasers of Treuhand enterprises – one who bought 29 businesses, and the other who took over 10 – are sitting in jail awaiting trial on various charges of falsification and fraud. The former privatisation director has just been arrested in Texas (for speeding in a Rolls Royce), and is now the subject of extradition proceedings.

As for the 300-odd enterprises and properties sold off in the area, the entire lot has had to be reconsidered, and contracts renegotiated, to make sure the investors are sound and the legal details correct.

It is a nightmare for all concerned – not least the workers in the privatised companies, whose jobs are once more in doubt – but it was probably an inevitable consequence of the sheer scale and speed of the privatisation process.

"With the best will in the world, mistakes can be made," says Mr Rüsberg, who came to the agency as an entrepreneur who had run a joint venture in Romania for MAN-GHH.

"The performance of the Treuhand in such a short time was fantastic. I simply would not have believed in 1990 that so much could be done in such a short time."

The detractors of the Treuhand charge that the agency has presided over the de-industrialisation of east Germany, leaving the region condemned to remain a backwater of the west. They say that far more should have been done to restructure the enterprises before they were sold, rather than rush into privatisation at all costs.

Mrs Birgit Breuel: 'We always say we are not just selling firms'

Mrs Birgit Breuel, the no-nonsense former Christian Democrat economics minister from the state of Lower Saxony who has been president of the Treuhand since the 1991 assassination of Mr Rohwedder, quietly but firmly rejects such charges.

"It has not been de-industrialisation," she says. "It has been a return to small (industrial) cores. I am convinced that is positive.

"Every part we have sold will be fully modernised (by the year 2000). They will be lean – and striving for cost advantages. Then I believe we will have extremely attractive investment locations here.

"Of course, if everything was in a green field, we might have done things differently. But we were not beginning in a green field. We were dealing with hundreds of thousands of people."

To the charge that the Treuhand put jobs second in the rush for privatisation, she says:

"We always say we are not just selling firms, we are also buying something for them. We are buying management, we are buying technology, we are buying capital, and probably most important, we are buying a market share.

"We had to take the legal framework, and try to give the enterprises a real chance within it. We had to slim them down so they had a chance to be competitive. Of course that was gruelling work, and it meant a loss of jobs. But it was unavoidable."

There was no structural concept when the Treuhand began work, not least because there was no time to develop one.

"We were overwhelmed by the need to take decisions, immediately," she said.

"With economic and monetary union (on July 1, 1990), most of the companies were in desperate straits. We had no structure, and only 150 workers at the start.

"When I arrived in September, I had no office, no assistant, and no concept: just sacks full of letters."

But nor did the Treuhand's leadership believe there should be a "structural concept", says Mr Wolf Schöde, the agency spokesman.

"Our philosophy was to give every individual enterprise an individual chance to survive and develop itself," he said.

"It was a bottom-up strategy. Others wanted us to design a sectoral plan, industry by industry. But if we had done that, we would have been no better than a successor to the old east German planning commission.

"We are the last centralised institution of the old centralised DDR, and we are deliberately destroying ourselves - because in the pluralist, federal system of the new Germany, you don't need such a centralised structure."

Industrial workshop profile: JenLaser

Small engine for growth

JenLaser is one of those tiny Handwerk businesses, or industrial workshops, which economists believe will slowly help to drive the the east German economy towards recovery.

Already, more than 1m people are employed in eastern Germany's Handwerk sector. It consists of 188,500 businesses which vary in size from four (the number who work at JenLaser) to 200. Total turnover for this sector in the eastern states increased last year by 15 per cent to DM72.4bn last year compared with the previous year. The Central Association for Germany's Crafts and Trades reckons it already accounts for 10 per cent of gross domestic product.

JenLaser's small workshop is in the small village of Schlöben situated in the forests of Thuringia. It was the brainchild of Mr Dieter Schumann and two former colleagues from the Carl Zeiss optics enterprise in Jena.

Mr Schumann, 42, had worked there as a physicist until 1991. But instead of waiting with thousands of others for the inevitable redundancy pay-off, he left willingly, because, he said, "the longer I stayed, the more opportunities I would miss".

He and his colleagues, Mr Stephan Zenkar and Mr Volker Kurze, raised DM50,000, the minimum required to set up a limited company. Mr Schumann, unlike many other east Germans, had decided not to spend his savings on a new car. His loyal old Wartburg station wagon is an integral part of the business. "It's our delivery car," said Mr Schumann.

The three then approached the banks with their plan – "we wanted to set up a laser cutting business which would provide high quality cut steel to enterprises," explained Mr Schumann. "We needed a loan of DM500,000 to buy new equipment," he said, taking out a photo of his large house which he had offered as security.

His subsequent dealings with the banks were his foretaste of western capitalism. An official at the local Dresdner bank in Jena told the trio that the project was a waste of time. An official at the Bayerische Vereinbank said they should invest in second hand machinery but that a loan would take a few months. Finally, the Commerzbank offered the loan in 14 days. "We were on our way," said Mr Schumann.

They rented a couple of farm sheds from a west German who had bought part of a former LPG, or state farm, and then set to work – "we were working 12-14 hours a day throughout 1992 and paying ourselves about DM1,500 per month. It was tough going. We had to find a niche."

At first they considered tapping into the machine building industry in Stuttgart – "but we soon realised that after 40 years, these managers had built up very close contacts with suppliers and their customers."

Instead, they used old contacts built up with Carl Zeiss, combed the eastern states of Thuringia and Saxony, and secured nearly 100 customers.

Then came the need for more capital and a fourth employee.

"We needed another credit line of about DM750,00. This time, the local Sparkasse helped and, with cheaper interest rates backed by the European Union's Regional Development Fund, they bought new laser cutting equipment from a Japanese company. By the end of last year, JenLaser had a turnover of DM1m, and had paid off nearly 75 per cent of the first loan.

This year, Mr Schumann reckons turnover will be between DM1.2m and DM1.4m. "We are making a profit," he said (without saying how much) adding that JenLaser's two-pronged strategy of reasonably close markets and competitive costs was paying off.

"Our markets are within 200 km radius – and all in eastern Germany. Our advantage is that we have a fast turnaround – a matter of two days. We deliver the products ourselves." They had also managed to keep costs and overheads down. "Our prices are between 60 per cent and 80 per cent of west German prices," said Mr Schumann.

Now that the capital investments have been made, the company of four people believes it has secured a niche in providing high quality laser cut steel products. "We are operating at nearly 100 per cent capacity," said Mr Schumann. "The biggest challenge facing us is finding ways to keep costs down."

Judy Dempsey

RESTRUCTURING OF EASTERN GERMANY 4

A steep fall in employment levels – 37 per cent of the eastern labour force is now idle

The high price of national unity

Rarely, if ever, has a labour force experienced such a radical and swift transformation as that which swept eastern Germany.

When the Berlin Wall was breached in November 1989, the 9.3m workers of eastern Germany were heavily concentrated in manufacturing and agriculture. More than 920,000 people worked on the land. That number has since dropped to 210,000, a 70 per cent reduction.

More significantly, the 3.17m employed in manufacturing are now down by 60 per cent to 1.29m. In mining and energy, production decreased by 39 per cent between 1989 and 1992.

Overall, the number of available jobs fell by at least 34 per cent from 9.3m in 1989 to 6.2m in 1993. Since that time, the total labour force has decreased to 8.2m, largely as a result of migration.

Several factors explain the steep fall in employment.

● Most of the products from east German manufacturing were aimed at markets in eastern Europe and the former Soviet Union.

● The competition caused by the merging of the GDR's Ost-Mark with the western D-Mark.

● The collapse of the Comecon socialist trading organisation, and the inability of the eastern European countries and the former USSR to pay for east German goods.

● The policies of the Treuhand privatisation agency, which sought to reduce overmanning, close or break up and restructure the large Kombinate, or state-owned enterprises, to prepare them for privatisation.

Since unification, more than two-thirds of eastern Germany's total unemployed are women Picture: Tony Andrews

● The breakup of the LPGs, or collective farms.

● The wage levels, which imposed another brake on the demand side of the labour market. Since wages are set to equal west German levels by 1996, despite productivity often 60 per cent below west German levels, unit labour costs are around 170 per cent of west German levels.

"In reality, we would require a reduction by a further third of the work force if we were to match productivity levels of western Germany," commented one economist.

By March of this year, 16.8 per cent of the labour force, or 1.26m, were unemployed. That did not include those on short-time work (135,000), job retraining and job creation schemes (249,000, and 238,000 respectively) and those who had taken early retirement (205,000). All told, 37 per cent of the total eastern labour force is idle. Last year, the federal labour office paid out DM54.7bn in unemployment benefit.

The question is whether these very high unemployment levels have become permanent features of eastern Germany, and whether the federal government can continue to allocate nearly DM55bn each year as the price for maintaining social stability and for subsidising consumer spending in the east.

A recent report by the Berlin-based DIW Institute for Economic Research concluded that if the labour market in Germany did not radically change, there would be around 5m people without regular employment in the unified Germany by the end of the decade. It added that the economy would be burdened by higher taxes which would reduce enterprises' profits and could dampen the willingness to invest.

Against this background, few economists believe that – with the exclusion of women – the size of the labour market in eastern Germany will ever correspond to west German or western European levels.

Mr Wolfgang Scheremet, a labour expert at the DIW Institute, said that even when the recession ended in Germany, "there will simply be not enough new jobs in eastern Germany to absorb the high levels of unemployment."

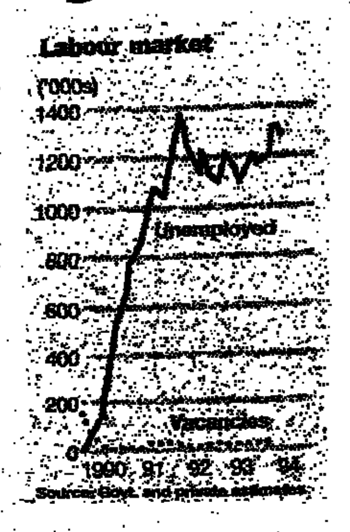
The manufacturing base, overmanned before unification, and now in a state of collapse, could no longer be considered as a viable instrument for rebuilding mass employment.

Instead, Mr Scheremet believes that some positive and negative trends within the labour force are likely to emerge in the following sectors:

● Construction. This sector will continue to play an important role as the housing stock is modernised, the infrastructure is upgraded, and hotels and offices are erected. Mr Scheremet reckons that the construction industry already accounts for about 12 per cent of the labour market.

● Innovative technology. A lot of money is being spent on introducing innovative and high levels of technology which will quickly become competitive and find a niche in international market. For instance, Siemens is investing DM2.4bn in a new microchip plant in Dresden which will create more than 1,200 jobs. The success of such enterprises are underpinned by investment grants.

● Services and the Handwerk, (the small trades and craftsmen sector). These sectors are already capitalising on the construction boom. The DIW and other economic institutes see the Handwerk, embracing 700,000 people, as one of the engines of economic revival. "The number of people in the Handwerk are increasing as the manufacturing continues to decrease," says Mr Scheremet.



Wages are set to equal west German levels by 1996, despite lower productivity

But these trends alone are not enough to absorb the high levels of unemployed. By 1993, western Germany was still supplying 90 per cent of the goods and services bought in eastern Germany.

Meanwhile, the cheap labour in neighbouring eastern Europe could help to keep high unemployment figures in eastern Germany.

The German economic institutes argue that if any small increase in the demand for labour emerges, especially for intensive labour, western German enterprises are more likely to shift production to the neighbouring countries of eastern Europe. The DIW study argues, that in the short term, this will deter investment both in west and east Germany.

In the medium and long term, it would benefit Germany as a whole because it would create a hinterland with very favourable cost conditions for suppliers. However, it concludes: "The positive effects of this will, however, not be felt until the beginning of the next decade at the earliest."

Women are the only sector of the labour market that appears to be matching western German levels. Eastern Germany's 8.1m women represent half the population. Before unification, more than 90 per cent of women, or 49 per cent of the total labour force in eastern Germany, were employed.

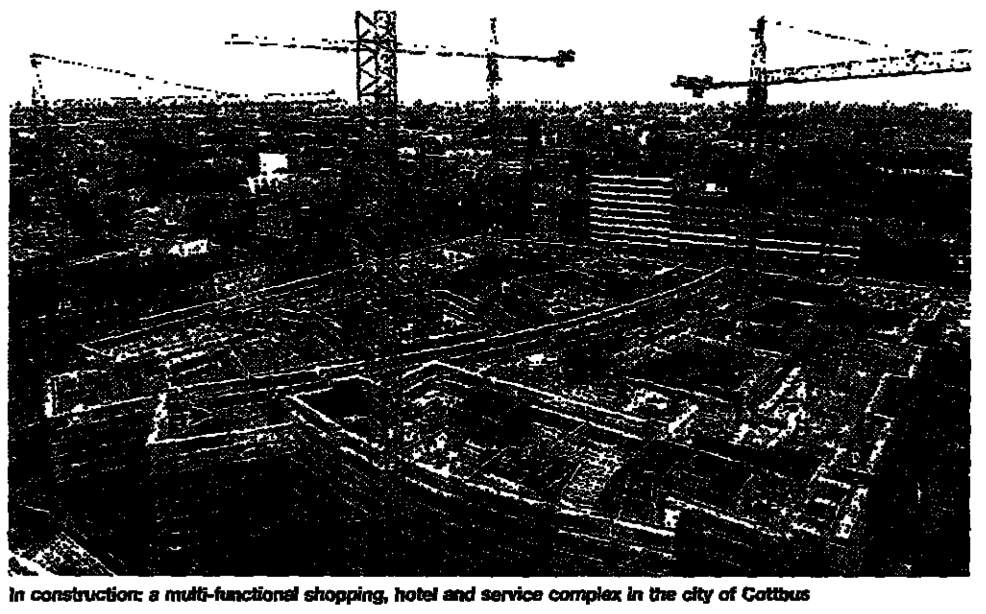
In contrast, of the 33.4m women in western Germany, more than 20m are classified as housewives while 13m are registered on the labour market.

Yet since unification, women, who are now more than two-thirds of eastern Germany's total unemployed, are being economically and socially forced back to the home as the labour market shrinks and radically different patterns of work take hold.

By late 1992, more than 4.2m east German women were registered as housewives, and 3.9m were registered on the labour market.

Yet even on the labour market, more than 905,000 are unemployed – not including those women on short-time work, job creation and job retraining schemes and early retirement. In western Germany, the number of unemployed women is 858,000.

Judy Dempsey



In construction: a multi-functional shopping, hotel and service complex in the city of Cottbus

Surge in construction continues unabated

German and foreign construction companies have moved quickly into a region starved of capital investment in housing, real estate and renovation in a bid to make up for lost time over the past 45 years.

These companies are also playing a crucial role in providing jobs. More than 383,000 people are now employed in construction.

The building boom, which shows no sign of slowing, is a welcome development for west German and foreign companies. They have offset poor returns at home because of the recession by capitalising on the expanding construction market in eastern Germany.

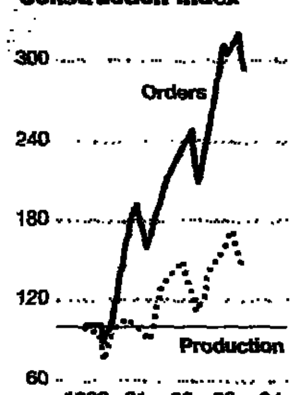
In west Germany, total investment in the building industry last year totalled DM347.8bn, a sharp decline on the previous year.

In eastern Germany, in contrast, total investment amounted to DM87.5bn, accounting for 7.1 per cent of GDP in real terms.

"Immediately after unification, there was a massive surge in public investment, but from very low levels of [previous] investment as well as a low GDP base," said Mr Heiko Stiepelmann, a spokesman for Germany's association for the building industry.

"We can now see a pattern emerging in east Germany," he continued. "At first, there was a rapid and large public investment programme." This was mainly in the non-residential state sector, including roads, bridges, public buildings, hospitals and schools. "Then the private sector began building or modernising enterprises and offices and now, over the next few years, we will see activity on the housing front – not only renovating old stock, but particularly building new homes as well," he added.

Construction index



Source: Govt. and private estimates

In 1993 alone, the federal government invested more than DM18.3bn in upgrading the infrastructure, a rise of 15 per cent on the previous year. It was followed by private companies which invested DM35.3bn in non-residential property, an increase of 22 per cent on 1992, and private housing, where over DM33.9bn was invested, a rise of 42.2 per cent (all based on 1993 price levels).

Mr Frank Söffner, a housing expert at the Munich-based Ifo institute, believes that investment throughout the construction industry in eastern Germany will continue to rise by 16 per cent each year.

On 1991 prices, it could reach DM2,400bn by the year 2005. However, he says this level of investment would need to be maintained, if not increased, if the German east was to reach the west's standards by that time.

So far, there are few indications to suggest that investment in the construction industry will slow. The governments of the five eastern states continue to offer generous financial incentives and tax holidays for investors, and as more outstanding property claims are resolved, more residential housing will require renovation. The federal government is also planning to privatise 15 per cent of eastern German housing stock over the next 10 years.

In reports issued by Ifo, the Basle-based Prognos, the number of dwellings will increase even as the birth rate declines. In eastern Germany today, an average 2.4 persons live in one home. This number will fall to 2.2 by 2000 and 2.1 by 2010, creating the need for more dwellings.

In addition, experts reckon that of the 6.9m dwellings registered in eastern Germany, about 500,000 are no longer suitable for occupancy.

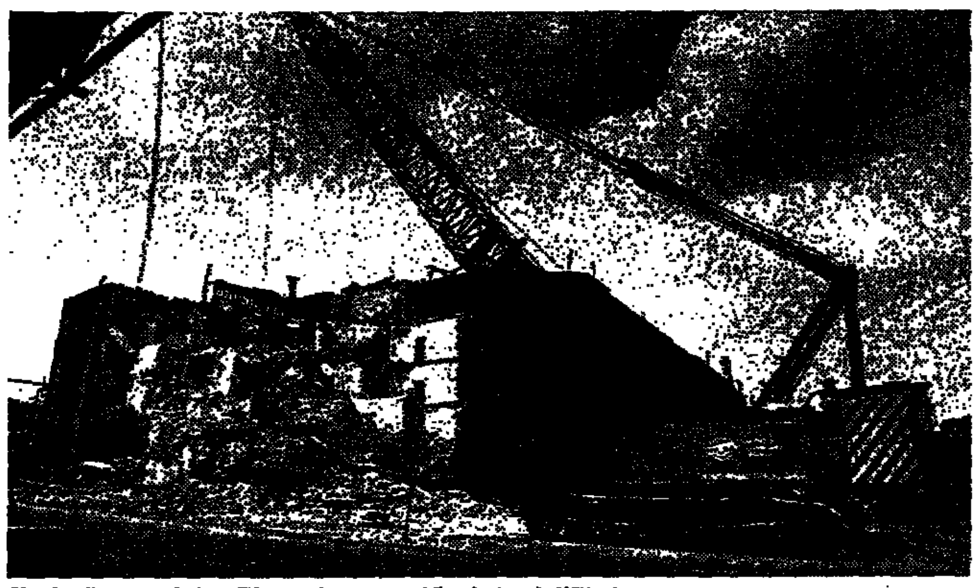
By 2000, they believe that between 7m and 7.3m dwellings will be required. In short, one-family and two-family homes will account for a very large share of construction activity for the rest of the 1990s, rising from 34 per cent in 1989 to more than 38 per cent in 2000. As a result, east German housing will soon match the occupancy – and quality levels – of its west German counterparts.

Yet, the boom in the east German construction industry has had some negative side-effects for west German companies. Wages in eastern Germany's construction industry are approaching 90 per cent of west German levels, although, according to Mr Stiepelmann, productivity levels are between 70 per cent and 80 per cent of west German levels.

At the same time, as more and more non-German companies enter the east German building industry, often bringing their own crews, and in some cases hiring workers from the neighbouring countries of eastern Europe, west German companies are faced with competition – "some local authorities are contracting out to foreign companies because they can do things more cheaply," said Mr Stiepelmann.

"The German industry's high wage levels and competition mean that west German companies have not reaped all the benefits of the construction boom in eastern Germany" – but it may bring savings for city authorities.

Judy Dempsey



Clearing the ground: demolition work on a crumbling factory in Wittenberg Picture: Tony Andrews

Search for stolen rights

Property owners struggle with the legacies of Hitler and Stalin. Disputes will take a long time to resolve, reports **Judy Dempsey**

A US developer who is investing more than DM800m in eastern Germany recently paid out more than DM1m as compensation to a former owner of a property who had tried to repossess it. Had he not paid out, his ambitious redevelopment of the property would have been delayed, and another costly design might have been required.

An Anglo-American consortium, which had invested heavily in the states of Saxony and Saxony-Anhalt, is still trying to resolve a property rights dispute after signing the contract with the Treuhand privatisation agency.

A Jewish family, forced to leave Nazi Germany in 1938, is still trying to reclaim its property after four years of lengthy and bureaucratic negotiations with the regional office for property questions.

The cases are typical of the claims being made by former owners (or their heirs) for property in eastern Germany confiscated either during the Nazi Third Reich or under the post war communist regime. Their claims often collide with the efforts of commercial developers to take advantage of eastern Germany's integration into the capitalist west.

In spite of such cases, German bankers, the Treuhand privatisation agency and the teams of consultants and advisers insist that investment in the five eastern Länder is not being held up by any outstanding property disputes.

Under the unification treaty, all owners who had their property confiscated between 1933 and 1945 are entitled to restitution of their rights or to compensation.

All owners whose property was confiscated between 1949 and 1990 are entitled to similar rights. But those who had property expropriated between 1945 and 1949, when east Germany was under Soviet administration, are not entitled to restitution, and only recently, won the right to a more limited form of compensation.

The deadline for registering claims was December 31, 1992. A year later, the Federal office for the Regulation of Property Questions still faced 1.08m outstanding claims on 2.6m titles. By that time, Berlin had resolved 16.3 per cent of claims, Saxony, 51.95. All told, 30 per cent have been resolved. According to officials at the Property Questions Office, it will take another decade to close the books.

The federal government chose restitution of property rather than compensation partly for financial reasons. Bonn simply did not have the funds to allow only compensation. Yet no sooner had these rights been granted than the Treuhand and bankers realised that investment in eastern Germany would be held back unless new investors had precedence over claimants for restitution. Following some amendments, it is possible to buy commercial property in eastern Germany if one undertakes to invest (and create jobs). In these cases, former owners of the property generally have to settle for compensation at market value.

There are still outstanding questions over the level of compensation to to individuals who cannot reclaim their property, either because it had been legally bought by east Germans after 1949, or because municipal buildings, such as a hospital, has been built on the original site.

The federal finance ministry has drafted several bills, suggesting that compensation be valued on the 1935 value of land, but multiplied by several factors depending on the nature of the property; that a ceiling be imposed on compensation payouts; and payments be gradually paid out through some bond system.

How do these delays in compensation legislation affect investment decisions? Mr Hansjürgen Schäfer, head of the Berlin-based federal office for Property Questions, says that with about 70 per cent of the real estate titles "there are no problems". But the other 30 per cent were "really critical".

One problem is deciding the actual purchase price as a basis for paying compensation. From the legal point of view it was also sometimes difficult to establish whether property was acquired legally after 1949. For instance, Mr Wolfgang Berghofer, the former mayor of Dresden, gave apartments and houses to his communist party friends and other political cronies.

"How do we assess the status of that property? Did these people receive the property legally or not? Was it legal under the former German Democratic Republic or not?" asked one official from the Property Questions Office. Then there are cases frequently experienced by members of the Jewish community. When they fled from Hitler, the Nazis, or those who had taken over their property, went to the Land Registry. There, they either tore out the pages containing the Jewish title to that property, wrote in their own, or simply crossed out the original owners' names with black ink and wrote their own names below.

The central land registry at Barby, near Magdeburg in Saxony-Anhalt, has many such examples. These cases became even more complicated when the new "owners" destroyed these documents or were stripped of the property by the east German communist authorities.

In an bizarre twist of history, former Nazis have taken advantage of unification to claim back these former Jewish properties, while their original Jewish owners frantically search for their title deeds, or, with the help of infra-red equipment at the Property Questions office in Barby, try to read their names through the black ink.

There is one other problem. It is quite easy to buy agricultural land in eastern Germany. But former owners of land expropriated between 1945 and 1949 are still insisting on equality of property rights before the law. Since they will not have the right to restitution, they are seeking fair compensation.

Mr Hans Marcus, a London-based lawyer at Pannone & Partners, says the situation in eastern Germany is "a mess – no matter what the establishment says, there are big problems with property rights. These disputes have hindered investment decisions ... such problems will take a long time to resolve."

Agriculture sector still a collective mess

Many land disputes have yet to be resolved, but private farming is slowly being reborn, writes **Judy Dempsey**

Monika Singer knows all about agriculture in the eastern state of Mecklenburg-Vorpommern.

Before she became mayor of the small village of Gross-Wüstenfelde in 1990, she had worked for eight years on the nearby State Collective farm, or LPG. Now, she spends hours in her small office dealing with queries and farmers' complaints, leaving her with little time for her five children.

"Its tough. The enormous pace at which agriculture has been restructured has left people disorientated largely because so many have lost their jobs," she said.

"Maybe it has been too fast, because at the same time we also had to integrate our agricultural sector not only into the west German system but into the European Union as well."

There is hardly a village in Mecklenburg-Vorpommern which has not been affected by these changes. United Germany inherited a complex farm sector in eastern Germany.

After the second world war, the large estates of the former German aristocratic families had been expropriated by the Soviet authorities which administered eastern Germany between 1945 and 1949. These estates were broken up and distributed among ethnic Germans forced out of eastern Europe. Many received plots of land of about six hectares.

Not long after, the east German communist regime placed about 75 per cent of the private farms under co-operatives, normally about 4,500 hectares in size.

The remainder of east Germany's 6.2m hectares were turned into giant LPG state farms. Coping with that legacy has proved one of the other difficult aspects of restructuring the east German economy.

After unification, the federal government embarked on a two-pronged strategy: the right to restitution and compensation was granted to former owners of land under 100 hectares.

This right did not extend to those owners of the large estates which had been expropriated by the Soviet authorities between 1945 and 1949; and the Treuhand privatisation agency set about privatising or leasing 1.3m hectares of land, a third of the total arable land in eastern Germany.

By the middle of this year, the Treuhand will have leased out 700,000 hectares, many on 12-year contracts.

Mr Otto Bammell, a senior official at the federal ministry of agriculture, admits the re-privatisation of land has thrown up many unforeseen problems.

"Many people now have their land back. But in the process, they soon discovered they had a giant silo stuck in the middle of their property, or found huge barns which once belonged to the collective farm.

There are now disputes about who owns these buildings and who should remove them. It's a mess," he said. Then there was the unresolved question about how much former small landowners would receive in compensation instead of restitution.

Apart from property disputes, the government is also faced with very high levels of unemployment in states such as Mecklenburg-Vorpommern, and Brandenburg where entire communities depended for their livelihood on the state, or collective farms.

"Under the old system, there were 850,000 people working on the land, or about 14 people per 100 hectares. That's at least three times the number compared with western Germany," said Mr Bammell. Since 1990 this figure had fallen to about 200,000 people as a result of restructuring, he said.

"The reforms have been successful to the extent that farming is now more efficient. But in some villages, about 60 per cent of the population have no work. There is no industry in Mecklenburg-Vorpommern into which people can move. Politically, and socially, it is extremely dangerous," he added.

Restructuring also co-incided with integrating east German agriculture into the European Union system.

"When we started the reform of agriculture we also had to reconcile levels of production with EU regulations, which entailed putting aside 15 per cent of arable land," explained Mr Bammell.

"This meant limiting crop production here in eastern Germany to 3.6m hectares. This is the base area which would make us eligible for EC price support," he added.

In the process, German officials had discovered that the state of Mecklenburg-Vorpommern had planted 17 per cent above permitted levels, and the states of Saxony and Thuringia had overshot by 10 per cent. In total, eastern Germany has exceeded the base area by 350,000 hectares.

As a result, farmers in Mecklenburg-Vorpommern may be asked to set aside a total of one third of its land, without compensation, in order to pay the penalty for over-production. Agricultural officials say it will be some time before east German agriculture stabilises.

"The people have had to cope with so much change on the land. A complete breakdown of the former system took place after unification. We now have to restructure the entire sector stage-by-stage both socially and economically," said Mr Bammell.

For Ms Singer, the completion of that process cannot come soon enough.

Quentin Peel describes the replacement of an archaic phone system

Forward from the 1920s

They used to say in the old communist East Germany that it was not the Americans who were the real enemy: it was the rain.

"Every time it rained, the wet would get into the telephone cables, and knock out half the system," says Mr Wolf Reiner Menzel, sitting in the massive old Post Ministry headquarters in Berlin's Leipziger Strasse.

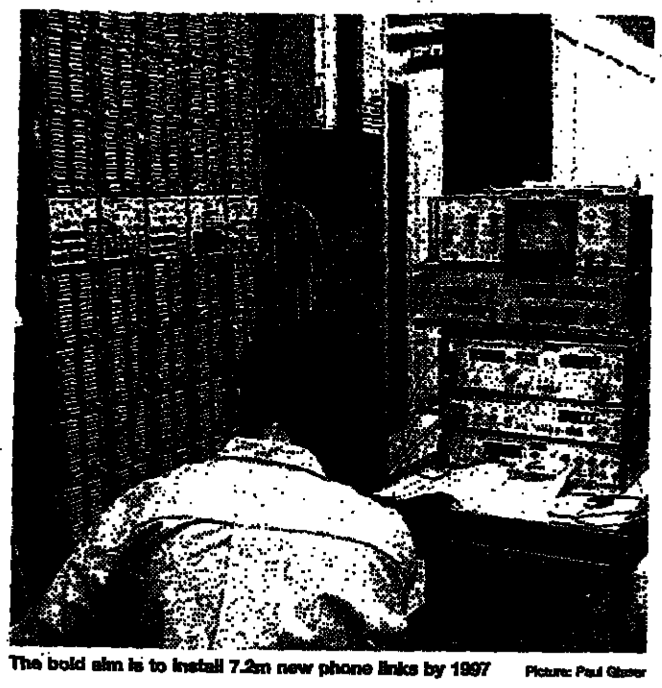
"The concrete channels were so rotten, you couldn't keep it out. We tried to dry them out with compressed air, but it only worked up to 100 metres on either side of the telephone exchanges. So the rain simply cut off our conversations."

Not that the phone system was that efficient when the sun shone. Only one person in 10 had a telephone, and some of the switchgear dated back to the 1920s. Of the 1.8m telephone connections, around two-thirds were in private homes, and of those, 90 per cent used shared party-lines. You couldn't use the phone if your neighbour was talking.

The other idiosyncracy of the system was that each of the main arms of the totalitarian state had its own separate phone network: the army, the state security service, and the communist party, for a start. Any senior functionary had to have a battery of telephones on his desk to be linked up with all the separate services. No one trusted anyone else.

That was the extraordinary system which greeted Deutsche Telekom, the west German state monopoly, when it took on the task of modernising the east German network at unification.

The result was the biggest single investment programme undertaken by any one enterprise in east Germany, scheduled to cost DM60bn by 1997. In that time, some 7.2m new telephone connections will be installed, as well as 360,000 fax connections, 50,000 packet-switched data links, 5m TV cable connections, a complete digitalised switching system, optical fibre networks for both long-distance and local calls, and a whole series of mobile communications networks covering the entire territory.



The bold aim is to install 7.2m new phone links by 1997 Picture: Paul Glaser

"We will simply leapfrog several generations of telecommunications technology," says Mr Menzel, who is today responsible for customer services and public relations. From having had one of the most antiquated phone systems in Europe, the east Germans will have one of the most modern.

The telephone exchange in Halle, capital of east Germany's once-thriving chemical industry, provides a graphic illustration. The old exchange was built in 1922. Standing surrounded by 10-foot-high banks of electro-mechanical switches is a bit like being in the middle of a weird mechanical jungle, full of the manic clicks and rattles of thousands of crazy crickets. At the end of every row is a red light, which switches on if there is a fault. At least 25 per cent are blinking.

Next door, still surrounded by bundles of new cable, stand the slim new digital switches which will replace them: a few rows of neat grey cupboards, totally silent, and intended to be virtually maintenance-free. Human beings are noticeable only by their absence.

In the Halle suburb of Silberhöhe, on the top of a grim 19-storey block of workers' apartments, past graffiti denouncing racist skinheads and celebrating tekkno-music, a forest of aerials has sprung up to cope with the explosion of mobile telephone calls expected from the revival of the east German economy. There are 10,000 users already in the Halle region, and the newly-installed capacity is 80 per cent exhausted at peak times.

In spite of the frantic pace of investment, Deutsche Telekom is only just keeping pace with the growth in demand.

In 1993, 1.02m new connections were installed, and another 249,000 old lines transferred, which reduced the waiting list by just 90,000 – because there were 1.18m applications for new lines.

Mr Wilhelm Pällman, Telekom director responsible for the Aufbau Ost investment programme, says: "Telephones are still selling like hot cakes...Beside a television set, refrigerator and car, the citizens of the new federal states clearly regard the telephone as one of the basic necessities of life."

He admits that one of the biggest problems at the moment is the number of cables being cut in the course of all the construction activity under way across the territory. "Many cables have fallen victim to this positive activity," he says. "Of course it only causes quite short-term interruptions, but it also causes natural irritation. It proves that telephoning has become a perfectly normal activity."

The investment programme has concentrated on supplying the business sector first, and the turnover per telephone – at DM1,200 – reflects that. It is around 10 per cent higher than the similar figure in the west.

From a density of one telephone to 10 people at unification, the level has risen to 24.2 per 100 inhabitants to date, compared with 49.9 in west Germany. By 1997, the target is to reach 46.8 per 100 inhabitants in the east, compared with 52.7 in the west.

The cost has undoubtedly been astronomical, with DM28bn spent so far. It is one key factor driving Deutsche Telekom towards privatisation, which will provide the option of financing its capital spending through the stock market.

The federal court of auditors has expressed the fear that the programme has been conducted regardless of expense, and many outsiders believe it might have been cheaper to allow the major international telecoms giants to compete in the market.

Deutsche Telekom retorts that it is only thanks to its monopoly that it was able to mobilise such vast resources so quickly.

"Perhaps we have sometimes paid twice for the same line. And we threw cables over autobahns, and hung them from the trees, knowing they would only be used for six months. We used every possible contingency. But the need was urgent. The politicians demanded it," says Mr Menzel.

"The lack of telecommunications was the biggest single disadvantage cited by potential investors. Today it isn't seen as a serious disadvantage any more."

Unification of post codes

The stamp of unity

It was July 1, 1993. The postman arrived at the usual time.

"I thought you might be a bit late because of the new post codes."

"Oh no – the system is working fine. The Germans have had enough time to tell their friends and contacts about the changes," said the postman.

Not even the post code could escape the affects of German unification. "After all, we could not have Bonn and Weimar sharing the same post code of 5300. Could we?" said Mr Norbert Schäfer, of the federal post office.

The west German postal code system was introduced in 1961, the year the Berlin Wall divided this great city. The east German system, considered more rational because it had more post codes covering much smaller areas, was introduced in 1965. But with unification came the re-writing of the post code.

The new post code, inspired by the French and Swedish models after two years of research and trials, involved scrapping the existing 5,400 codes and replacing them by 26,400 new ones.

Gone is the old "W", (for West Germany) followed by a number, the city, then another number.

Gone too is the "O" for east Germany. Instead, the post code has been simplified with just a set of numbers preceding the city, town or village. The first two numbers denote the region, the last three the local post office.

The German post office spent DM400m on introducing the new system, which included DM200m on its development, such as installing new computers, DM80m on advertising, and DM120m for distributing to the country's 34m households the hefty 1.3 kg new postcode book – which even merited a book review in the conservative *Frankfurter Allgemeine Zeitung* on April 30, 1993.

Everything was ready by July 1, 1993, when the two separate postcodes of eastern and western Germany were unified.

And the success rate? After a few initial complaints from the large retail and mail-ordering services, the post office authorities feel they can take a bow.

"The acceptance rate has been very fast and high," said Ms Franzi Koski, an official at the post office.

"Several weeks after introducing it, we had a 90 per cent acceptance. Now, we have about 96 per cent rate. We expect 99 per cent soon."

And the postman will continue to turn up at the usual time.

J.D.

Judy Dempsey goes on the trail of the disappearing 'Trabi'

A plastic body has its uses

Mr Peter Mattauch reckons his small business which he set up last year has a good chance of surviving.

Faram, employing 30 people, specialises in breaking up and recycling cars. Not only western models, but the famous Trabant – affectionately known as 'the Trabi.' The bodywork, with its spluttering two-stroke engine, is made of plastic rather than steel. It was one of the symbols of the former German Democratic Republic. But like so many other products, it was in permanent short supply. People had to wait nearly a decade for one. By the time the Berlin Wall fell in November 1989, there more 1.9m Trabi drivers on the roads.

As soon as unification came, many east Germans swapped their Trabi for a western car. But not everyone did. Today, more than 920,000 Trabies still chug along the roads of east Germany – "it's surprising how many of these cars still exist," says Mr Mattauch, whose company is based in Rohr in the eastern state of Thuringia. "I suppose it's because the old Trabi is still cheap."

Still chugging along: an old 'Trabi' car in the centre of Leipzig Picture: Tony Andrews

But there's another reason: the Trabi has become a bit of a cult symbol in eastern Germany, and not least, part of the nostalgia for things east German. Mr Mattauch is already breaking up 3,000 cars a year, including 1,000 Trabies. He is delighted that the east Germans have not yet deposited their Trabies at waste recycling centres – "I'll be in business for a long time – I hope."

But don't for a moment think that there is no life after death for a Trabi. Because it is not steel, it can be shredded, melted down, and then made into a form of plaster for the building industry – which shows it has qualities hitherto unknown to its critics.

Supermarkets spring up on virgin territory, says **Judy Dempsey**

Music of the cash tills

Anyone driving through eastern Germany for the first time cannot fail to notice the number of vast shopping centres which have been built outside the region's main towns and cities.

These centres, built on greenfield sites since unification, undoubtedly fulfil a demand. Before 1989, eastern Germany's retailing sector, such as it was, was monopolised by the Konsumgenossenschaft co-operatives, consisting of department stores, supermarkets and small outlets; and the Handelsorganisation, the state-run retail sector. Compared with western German levels, which has 1-1.2 sq metres per capita of retail outlets, there were 0.3 sq m per capita in eastern Germany before 1990.

Following unification, the large retailers from western Germany rushed in, encouraged by a consumer spending spree by east Germans. In most cases, the big chains decided immediately to acquire property outside the city centre. They bought cheap land from the local councils, often for only DM3 a square metre. More importantly, they could acquire the land easily because, unlike the centre of the cities, there were few property rights claims. In addition, they could take advantage of investment grants allocated by the states of eastern Germany.

But there was another reason why the west German retailing sector decided to locate outside the cities. Not only was the land relatively cheap, but retailers could obtain planning permission quickly, unlike western Germany where planning permission is strict, and because the local eastern councils realised they could reap some of the benefits by claiming turnover tax from the retailers.

Above all, west German retailers arrived in eastern Germany at a time when the city authorities themselves had not yet decided what kind of long-term planning they wanted for the inner cities. In short, no lobbies had yet emerged in the city councils to protect the small shop-keepers and retail sector in the inner cities from the competition emerging outside the city perimeters.

New shopping centres are chiselling away at the smaller retailers and taking away employment in the inner cities, say critics

Eastern Germany's city authorities are now questioning the benefits of these shopping centres.

Mr Ralph Kausch, a retailing expert at Leipzig's Chamber of Commerce, says the cities are the main losers. "A struggle is taking place between the city government and local councils. That struggle is about how to win back consumers to the inner cities. The shopping centres are chiselling away at the small retailers in the city and taking away employment in the inner cities."

By 1993, only 20 per cent of retail outlets, including department stores, in eastern Germany had been based in the cities compared with about 80 per cent in western German cities. The absence of the large retailers also means that the cities, already strapped for revenue, are deprived of the turnover tax from the retail sector.

Mr Krausch believes that Leipzig is losing taxes on an annual DM900m turnover in the retail sector. In contrast, the small local council of Günthersdorf, west of Leipzig, which has a population of 650, can expect to thrive from the giant 100,000 sq m Saale Park shopping complex which is expected to reach a turnover of DM850m by 1995.

The cities in eastern Germany are now on the offensive, tightening up planning permission with the aim of curbing the continuing expansion of the shopping centres.

Ms Irene Krause, an official at Leipzig's planning office, said the city had already granted planning permission to develop 455,000 square metres of retailing outside the city but in future the city authorities intended to impose limits.

It may be too late. Mr Berndt Rückert, president of the Association of German retailers, said recently that the cities provided few incentives for retailers after German unification. "Property in the inner cities was too expensive and property rights were unclear," he said. In Berlin's Mitte, the heart of east Berlin, retailers would have had to pay between DM20,000 and DM30,000 a sq m in the boom of 1992.

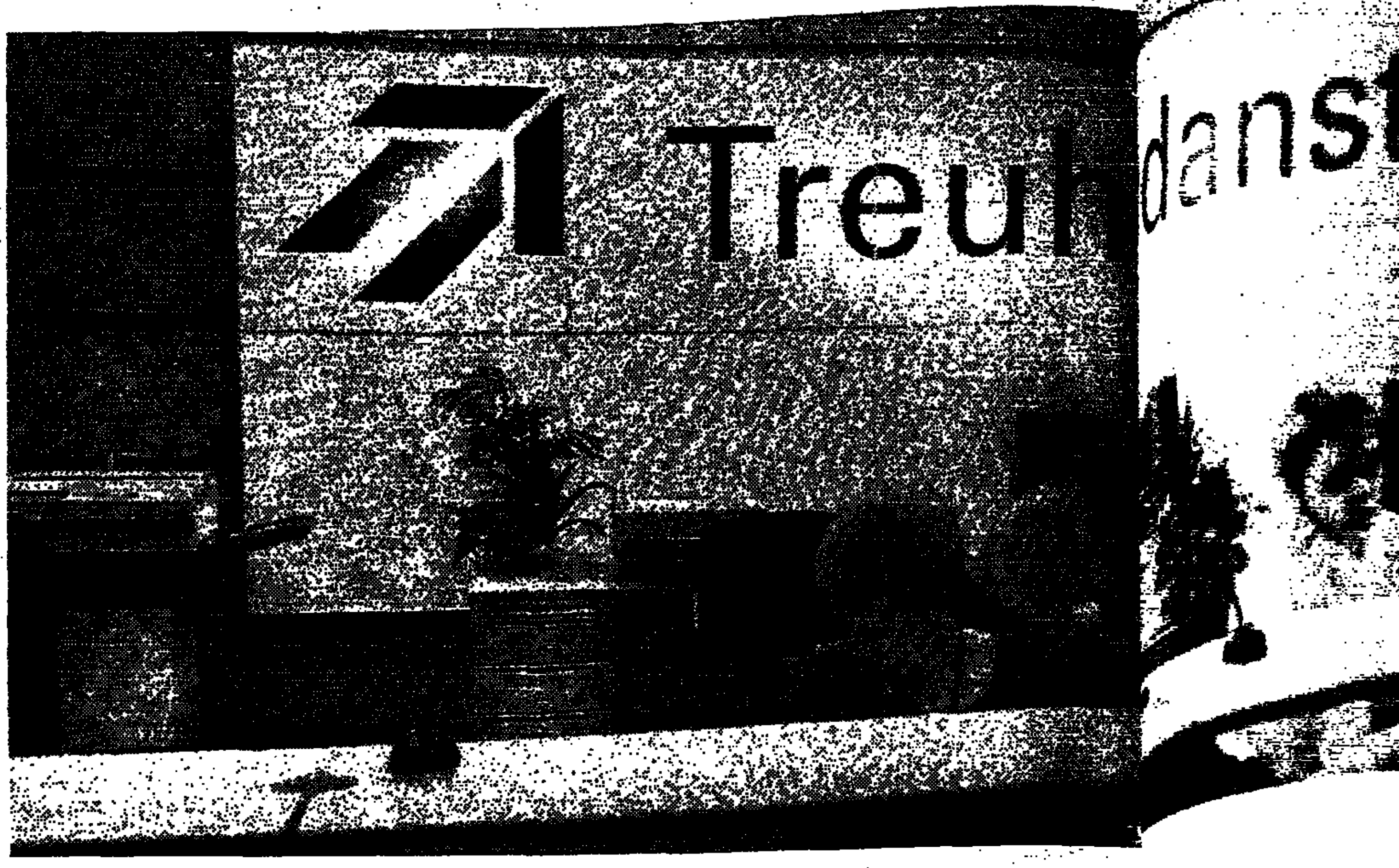
Yet there is a positive side to the retailing developments of the past three years. If the infrastructure outside the cities continues to improve, it is likely the consumers and retailers will both win: consumers will be given more choice at more competitive prices, and retailers, boosted by the availability of more capacity, unthinkable in western Germany, can now rethink their long-term strategy for retailing throughout Germany.

Mr Cy Schluter, a Frankfurt-based retailing expert, said that retailers will be able to build large warehouses, which will cut costs, shorten delivery times, and pass on some of the benefits to the consumer. "If you have a large warehousing network, the transport and delivery costs can be kept down, and ultimately prices can be kept down as well," he said. Mr Schluter added that as the road network improved, retailers would increasingly use eastern Germany as a base for moving goods across Germany.

But it remains to be seen if the economy of eastern Germany can support these large retailing outlets as the fear of unemployment forces people to spend less.

There are few worries on the home-improvement front, as east Germans continue to renovate their homes. Hornbach, the large home improvement department stores, expects its four outlets in eastern Germany to account for a quarter of its total turnover, which last year exceeded DM750m.

But Mr Schluter believes the food sector could come under pressure. "The outlets are not near the centre. People tend to buy food every day. I am not so sure they are prepared to drive some distance for the most basic food items."



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Germany's new states are moving in the right direction. Powered by the collective and individual efforts of the region's residents, eastern Germany's economic structures are being transformed. One major part of this transformation has been effected by the Treuhandanstalt, which has privatized thousands of centrally-controlled economic units since summer, 1990, when the agency launched its main operative phase. Before the ultimate goal of creating a functional free market economy in Germany's new states has been achieved, many obstacles have to be overcome. The region's companies are still contending with slumps in their traditional markets in both eastern and western Europe. The companies themselves are undergoing the rigors of top to bottom revampings of their production facilities and operating technologies. Carrying this out has involved the highest degree of toil and personal sacrifice. Many persons have been confronted with the loss of their jobs and with corresponding periods of unemployment, others with the challenge of learning a new profession. Despite this, one fact remains of central pertinence: the transformation has gotten off to a solid start. The region's newly-recreated economy is generating products and services well capable of competing successfully on international markets. This fact is documented by the figures for sales made by the region's individual economic sectors. The worst is over for eastern Germany's economy, a time of growth is at hand.

Focus on: TLG and property

The Treuhandanstalt has the world's largest portfolio of real estate. This portfolio is managed by the TLG, a Treuhandanstalt subsidiary, and comprises everything from downtown 1a sites to exurban business properties with quick access to divided highways and rail lines. The TLG's portfolio also includes palaces, lakeside plots and properties on the Baltic Sea. For the innovative investor, the TLG has something special to offer: "Amerika", 28 acres of riverfront property featuring an historic textile mill and related facilities and grounds.

A full-service provider, the TLG is headquartered in Berlin and maintains offices in all five of Germany's new states. These offices are staffed by professionals with an in-depth knowledge of local real-estate markets.

Compensation packages were provided to those experiencing – a sadly unavoidable – loss of their jobs. Both these packages and job-creation programs were often made possible by large expenditures of Treuhandanstalt funds. Despite all the changes taking place in the region's companies, they have never stopped investing in the future and in tomorrow's human capital. Some 6.8 % of all persons working at the region's companies are trainees – an average exceeding those in western Germany.

The industrial sector in Germany's new states has registered a further rise in output. Companies privatized by the Treuhandanstalt over the past three years have played a major role in causing this "marked increase in the level of industrial activity in the new states", as it is being termed by leading German economic institutes. This industrial sector is not only growing in both size, but also in sophistication. One prominent example: plans are being finalized to produce ultra-high performance chips in Saxony. Siemens intends to capitalize on the Dresden region's years of experience in manufacturing advanced electronic components when undertaking these production activities. The Treuhandanstalt has helped sustain the area's manufacturers during their time of transition.

Other prominent example of the region's companies taking on highly competitive world markets is in Thuringia, where Carl Zeiss Jena and its associates have developed new ranges of optical and microelectronic products and sensoric instruments. Underpinning this new start is a new operational productivity in the companies involved.

Another example is in Mecklenburg-Western Pomerania's shipbuilding sector, long a traditional activity on the Baltic coast. Newcomers to ranks of the state's shipbuilders (but by no means to the international shipbuilding market) are Kvaerner, the Norwegian company, and Hanse Holding, part of the Bremer Vulkan group.

EKO is a steel-manufacturing company located in Eisenhüttenstadt, Brandenburg. Its future has just been resolved. Italy's Riva group will acquire a majority stake in EKO and will manage its operations.

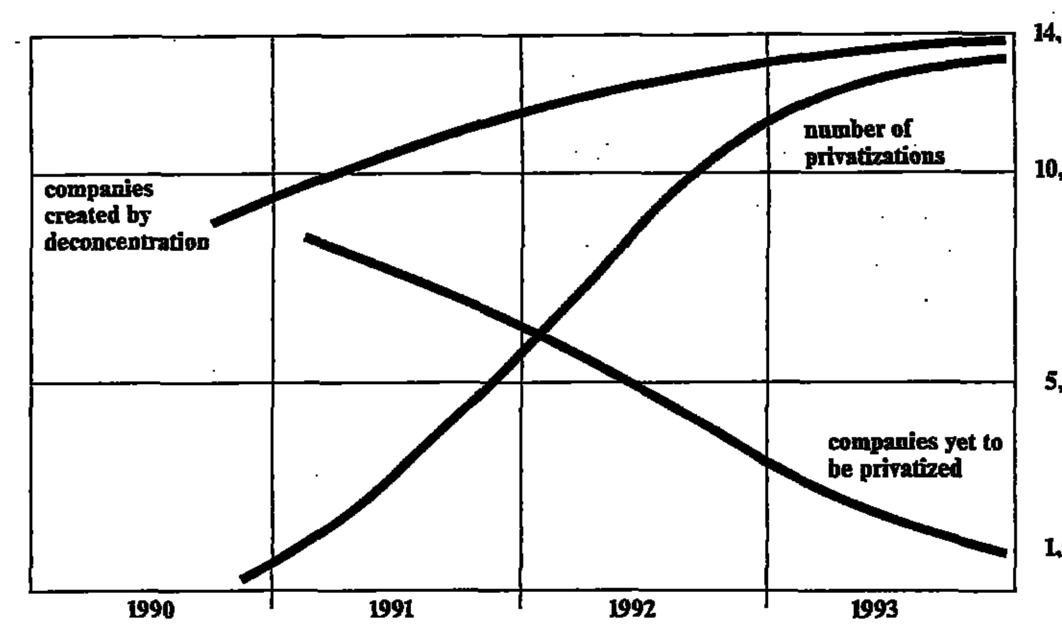
The new states' industrial transformation has been especially pronounced in Saxony-Anhalt's "Chemical Triangle", which is located between the cities of Halle and Merseburg. One of the facilities issuing from this sweeping change is a new refinery located in Leuna and belonging to France's Elf-Aquitaine.

These are just a few of the 47,000 privatizations already facilitated by the Treuhandanstalt.

As of January, 1994, the Treuhandanstalt's portfolio contained less than 250 companies still seeking private-sector ownership. This relatively small number does not, however, by any means indicate that the agency is running out of things to do.

Quite the opposite. The Treuhand-Liegenschaftsgesellschaft mbH (TLG) is the agency's highly-active real estate arm. One of the factors boosting the growth of a broad-based corporate sector in Germany's new states has been the corresponding rapid development of its real estate market. The TLG and its partner companies have played – and are playing – a major role in creating and further developing this market.

Privatization: the path to a private sector



In 1990, the Treuhandanstalt assumed the responsibility for more than 8,000 economic units, which had formed part of East Germany's centrally planned economy. Through deconcentration and split-offs, some 13,000 independently-run companies were created. As of the beginning of 1994, some 250 companies were still awaiting privatization.

The Treuhandanstalt's balance sheets in 1990/91 and in 1992	DM opening balance sheet 1.7.90	corrected opening balance sheet 1.7.90	balance as of 31.12.91	balance as of 31.12.92
ASSETS	in DM million	in DM million	in DM million	in DM million
A. Property transferred to the Treuhand under the Trusteeship Act ("Treuhandgesetz") and the German-German Agreement on Unification ("Einigungsvertrag")				
I. Equity held	78,909	77,836	45,568	33,004
II. Mining property	1,387	1,388	982	466
III. Agricultural land and forestry properties	16,063	15,959	15,310	14,661
IV. Other non-financial assets	5,772	6,053	5,331	5,228
V. Claims against Treuhand companies				
claims arising from liabilities for equalization accruing in accordance with § 25 DM BilG (Germany's law on balance sheets)	6,177	5,544	2,712	954
loans to partners	5,667	8,250	8,366	8,669
B. Other assets held by the Treuhand				
I. Fixed assets				
Intangible assets			4	4
Tangible fixed assets			63	84
Financial assets			0	501
II. Current assets				
Goods on hand	213	213		
Receivables and other assets				
a. Due from privatization agreements			5,832	3,910
b. Due from Treuhand companies			80	416
c. Due from affiliated companies			2	98
d. Other assets	25	25	688	1,249
Securities				1,856
checks, cash on hand and at banking institutions	18	18	301	247
C. Accruals and deferrals			0	186
D. Deficit	209,291	235,015	246,585	250,318
Sum totals	323,522	350,301	331,824	321,851

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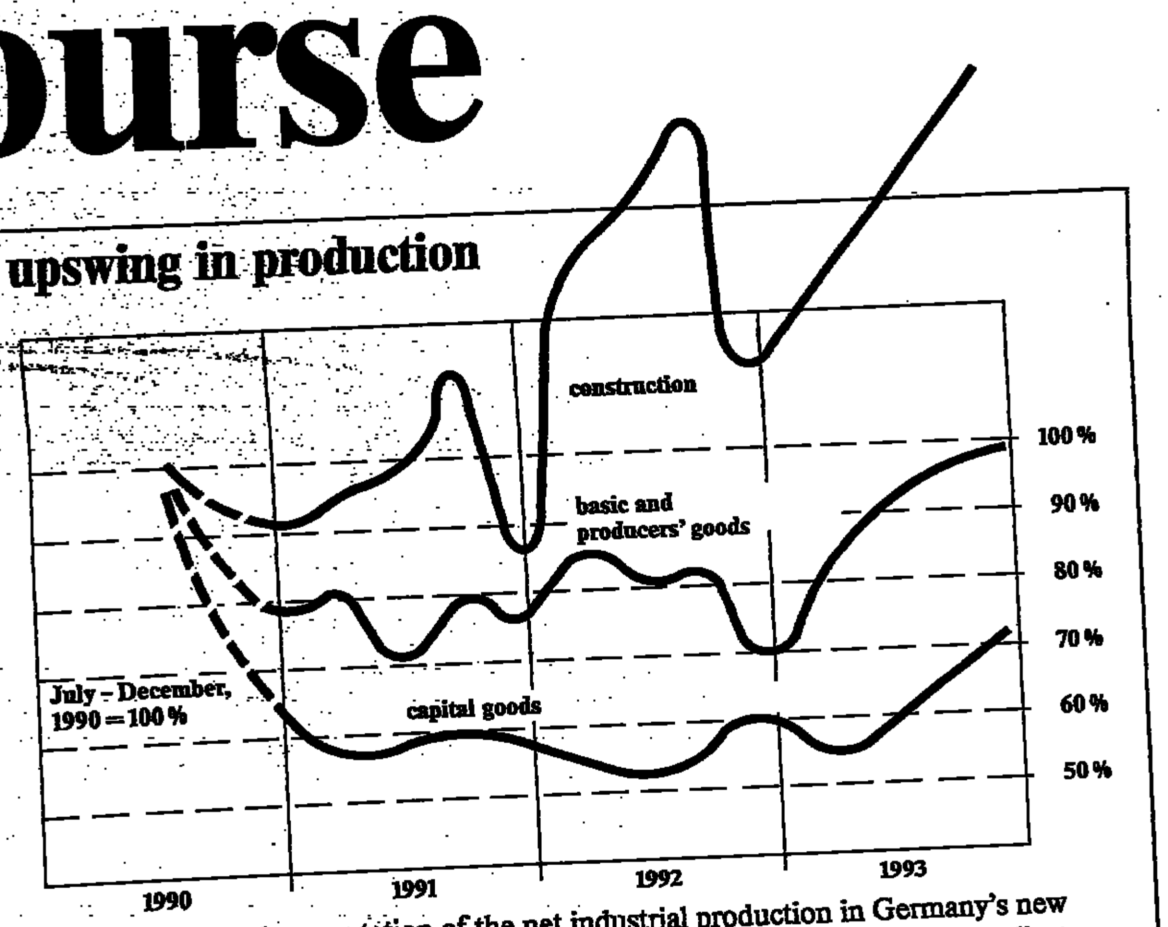
An upswing in production



This is a graphical presentation of the net industrial production in Germany's new states. The point of reference (100 %) is July – December, 1990. As the chart indicates, the individual sectors have experienced divergent paths of development. The construction sector is growing explosively; the region's capital goods producers are still suffering from the crumbling of markets in eastern Europe.

	DM opening balance sheet 1.7.90	corrected opening balance sheet 1.7.90	balance as of 31.12.91	balance as of 31.12.92
	in DM million	in DM million	in DM million	in DM million
LIABILITIES				
A. Reserves				
I. Reserves constituted to provide for the restructuring of properties held	30,573	38,292	24,709	15,385
for financial expenditures resulting from recapitalization for reorganization and for privatization, including liquidation and settlement	165,805	190,007	161,558	131,669
for assignment of assets to municipal and regional authorities and to original owners (reprivatization)	18,918	17,720	11,369	6,556
II. Reserves constituted to provide for transfer and compensation claims	12,981	9,992	9,992	10,771
III. Reserves providing for commitments to compensate for loss of property value, constituted according to Germany's law on property	14,950	10,400	10,399	9,646
IV. Reserves providing for commitment to make interest payments to the credit settlement fund	17,535	15,233	14,098	6,450
			10	17
V. Reserves for pension payments and similar obligations	6,504	5,784	5,292	5,262
VI. Other reserves				17,038
B. LIABILITIES				
I. Loans	39,893	44,440	74,401	96,838
II. Liabilities to credit-dispensing institutions *portion attributable to liabilities assumed*			*49,922*	*56,682*
III. Liabilities arising from privatization agreements			3	111
IV. Liabilities arising from products delivered and services rendered			56	90
V. Liabilities to Treuhand companies	14,546	17,029	15,534	15,076
Liabilities arising from claims for compensation arising from § 24 DM BilG (Germany's law on balances)	1,817	1,404	3,315	5,459
Other liabilities			6	115
VI. Liabilities due to affiliated companies			1,082	1,276
VII. Other liabilities				92
C. Accruals and deferrals				
Sum totals	323,522	350,301	331,824	321,851

The Bodenverwertungs- und Verwaltungsgesellschaft (BVVG) is charged with administering the agency's portfolio of 3.7 million acres of agricultural land and 2 million acres of woods. In financial year 1992/93, the BVVG concluded 9,412 lease agreements; for 1993/94, more than 6,700.

The Treuhandanstalt's contract management department is also quite busy managing its nearly 30,000 "charges". The department's job is to ensure that the agency's contractual partners adhere to these agreements. On a contract by contract basis, the department supervises compliance with such items as number of jobs guaranteed and investment commitments. All told, the Treuhandanstalt's contracts now involve DM 45 billion in proceeds from privatization, guarantees of 1.5 million jobs and commitments to invest DM 180 billion.

Another of the Treuhandanstalt's major, ongoing responsibilities is returning property expropriated by the East German government to the region's districts and large-sized cities. To date, local governments have placed 76,978 applications for the return of such items as airports, street car lines, daycare centers and sports facilities. Of those applications, more than 31,000 have already been processed and resolved.

An onerous responsibility remains the administration of the "special property" formerly in the possession of the "Commercial Coordination" department of the East German security forces and of that previously owned by the country's Communist party and related organizations. This responsibility has an especially vexing dimension. These assets, presumably worth billions of marks, must be first tracked down.

Three thousand companies had reached the point where their reorganization and recapitalization was no longer possible. These companies had to be closed down. However, by selling individual operations or assets, liquidators employed by the Treuhand have been successful in securing more than one third of all jobs at these companies. The majority of these liquidations won't be concluded within the immediate future.

When its companies have been privatized, the story of the "Treuhandanstalt" – in its present form – will come to an end. Its objective was and remains to put itself out of business. The Treuhandanstalt has submitted proposals to Germany's law-makers on ways to restructure the agency's operations in the post-privatization phase. Now it's up to the law-makers to decide.

This transition of operations has been scheduled for the end of 1994. The Treuhandanstalt will bequeath a sound financial situation to its successors. Balance sheets have been compiled and audited, reserves have been formed for future eventualities. Money spent by the agency went to secure jobs and the future of the Treuhandanstalt's companies.

In doing this, the Treuhandanstalt could not avoid making mistakes. District attorneys are currently prosecuting a number of cases. These will then be brought for resolution in courts of law. The Treuhandanstalt is actively supporting the prosecuting authorities in their efforts to combat this form of white-collar crime.

The TLG in facts and figures

- The TLG currently has some 70,000 properties in its portfolio.
- 980 persons are employed at its headquarters and at its fifteen offices.

The track record 1991 to 1993
Some 25,400 properties have been privatized, resulting in proceeds of DM 14 billion, investment commitments of DM 39 billion and the guaranteeing of 240,000 jobs.

A broadly-based private and public sector coalition is currently promoting purchases of products and services from Germany's new states. Participating in this program is one way to assist the persons in Germany's new states in their efforts to transform their economic system.

The left's confidence is growing

Political puzzle: despite recent polls, many east Germans admit that they will cast their votes differently in the ten local government and state elections, culminating in the federal elections in October, says **Judy Dempsey**

Young people pose with statues of Marx and Engels in Berlin Picture: Paul Glaser

The east German economy is only 9 per cent of Germany's total Gross Domestic Product, but its population represents a fifth of the country. The question in the federal elections to be held next October is whether east Germany will hold the national balance of power.

The most recent poll by Ipos, the Mannheim-based Institute for Social Research, suggests that the Christian Democratic Union (CDU) coalition will not win if it fails to improve its standing in eastern Germany. However it is slowly clawing back some of its lost support.

An Ipos poll last December showed the CDU with 32 per cent of the vote in the west and 22 per cent in the east; the SPD with 45 per cent and 38 respectively; and the FDP, 5 per cent and 6 per cent.

But by April 22, the CDU's standing improved both in western and eastern Germany. In the west it increased to 39 per cent, in the east, to 24 per cent; the SPD lost ground, falling to 41 per cent in the west but increasing in the east to 40 per cent. The FDP, the junior coalition, had fallen to 4 per cent in the west and 3 per cent the east.

The PDS, the reformed successor party of the former ruling east German Socialist Unity or communist party, which is based in the east, continues to make ground, rising by 2 percentage points between December and April to 16 per cent; the Bündnis 90/Greens have 11 per cent in the west and 9 per cent in the east.

"The CDU will have to make a big push and really improve in the east if it wants to be returned to office," said Mr Matthias Jung, head of Ipos.

Clearly, the economy, particularly unemployment, will be the main issue upon which the election will be fought. In the east unemployment accounts for 16.8 per cent, or 1.2m of the labour force. But if, as economists forecast, west Germany is emerging from the recession, it could have a positive spin-off for investments in eastern Germany, besides improving the general level of confidence, and boosting Chancellor Kohl's chances.

On a different level, other polls indicate that east Germans seem less angry and disappointed than they were a year ago with the consequences of unification. But would this benefit the present coalition?

Officials from the five eastern states believe that the easterners will register an anti-Kohl vote, but perhaps not on the federal level – "I may be wrong," said one senior official from the state of Saxony, which is CDU, "but I think that the incumbents will suffer on the state level in order to register an anti-Kohl vote. After all, four of the five states have CDU prime ministers."

However, he and other officials said that on the federal level, the CDU might scrape in because "although the easterners may not like Kohl, they know him and they link him with achieving unification. Rudolf Scharping [the head of the SPD] is still an unknown quantity."

Many east Germans admit that they will cast their votes differently in the nine local government and state elections, culminating in the federal elections in October.

They say the local government elections will be based on local issues; personalities will play an important part on the state level; and how they vote on the federal election will depend on how urgently they want a change of government in Bonn.

They also make two other points. First, they increasingly realise that there are now no quick answers to unemployment or restructuring. And since the massive transfers from the west cushion the unemployed and subsidise consumer spending, they are slowly coming to accept the extraordinary depth of social, political and economic changes.

Second, they are still unsure about what the SPD stands for, unlike the CDU, or for that matter the PDS, which according to opinion polls could win at least 16 per cent and even pass the 5 per cent threshold needed to enter the Bundestag or parliament through getting three candidates directly elected. Yet none of the established parties, with the exception of the PDS, can rely on membership in the east to help in the campaign. By the end of last year, the CDU had a total of 83,794 members in eastern Germany, 10,000 fewer than the previous year; the SPD's 25,000 members rose by 300; the FDP is hovering at around 35,000, after falling from 100,000 in 1990; the PDS has 131,000 members, a drop of 16,000 over the same period.

"The low party membership is worrying," said the Saxon official. "But what concerns us most is that the east could matter, if, in the west, both political parties are neck and neck at the opinion polls by next October but the CDU has not moved from its current 24 per cent level in the east.

"Everyone will then start counting the numbers in the east. They would be very unwise to neglect the region until then."

THE FIRST ALL-GERMAN ELECTIONS

The first federal elections took place on December 2, 1990. The average percentage of vote among the five eastern states was:
- Christian Democratic Union, CDU: 42.1 per cent
- Free Democrats, FDP: 13 per cent
- Party of Democratic Socialism, PDS: 11.3 per cent
- Bündnis 90/Green Party: 5.9 per cent

The average percentage vote for the whole of Germany was:
- CDU 43.8 per cent
- FDP 11.0 per cent
- Greens: 3.8 per cent
- Republicans: 2.1 per cent
- Others, including PDS: 5.7 per cent

Fuel and power are a marketing nightmare, says **Judy Dempsey**

Smoke gets in their eyes

The restructuring and privatisation of eastern Germany's electricity and brown coal sector was arguably one of the greatest challenges facing the Treuhand and the federal government.

Brown coal, or lignite, exists in large quantities in Germany and is reclaimed by open cast mining mainly for use in power stations.

Faced with the agonising choice of opening the sector to the market or protecting jobs, the compromise agreed in August 1990, between the former east German government, the Treuhand privatisation agency, and west Germany's utility companies ensured that eastern Germany's energy sector would not be exposed to the full rigours of real competition.

The Treuhand had inherited two huge and notoriously inefficient fields – Laubag in the states of Brandenburg and Saxony-Anhalt, and Mibrag, in Saxony-Anhalt and Saxony.

Employing more than 110,000 people before unification, productivity at the two fields was at least 50 per cent below west German levels, even though east Germany's per capita energy consumption was among the highest in the world, exceeding west Germany's by more than 25 per cent. The potential for waste was enormous.

Furthermore, the former east German communists had made brown coal mining a top priority, but failed to allow for the effects on the environment by working out a coherent strip mining plan. By 1989, brown coal accounted for 70 per cent of the region's primary energy consumption. A third of east German railway capacity was engaged in serving this single industry.

The Treuhand also inherited the chain of filthy, polluting power stations which ran on brown coal. The plants, run by Veag, east Germany's main electricity company, is due to be privatised later this year.

The Treuhand inherited two huge and notoriously inefficient coalfields, employing over 110,000 people

The Treuhand's scope for privatising the electricity sector was restricted from the beginning by the Stromvertrag, or Electricity Contract between the former west and east German governments. Signed in August 1990, it authorised west German utilities to own 51 per cent of east Germany's 15 utilities groups (all under Veag), with the remaining 49 per cent held by east Germany's municipalities. In return, the west German utilities, which include RWE, PreussenElektra and Bayernwerk, would undertake a large investment programme for Veag.

To underwrite investments of about DM46bn in east Germany's electricity network, the Stromvertrag stipulated that east Germany's regional utilities must, over the next 20 years, buy 70 per cent of their energy from Veag.

Meanwhile, Rheinbraun, RWE's brown coal subsidiary, began assembling a west German consortium to buy east Germany's Laubag brown coal fields as the fuel source for Veag. Laubag will fuel Veag. As for the Mibrag fields, it had been sold last December to an Anglo-American consortium comprising Britain's PowerGen, NRG of Minneapolis, and Morrison-Knudsen of Idaho.

Dozens of east Germany's local councils had challenged the Stromvertrag at Germany's Constitutional Court on the grounds that they had the right to 100 per cent of the assets, and not just the 49 per cent stake bequeathed to them in the Stromvertrag. They were overruled. Veag's ownership structure remains intact.

In the restructuring of the electricity and brown coal sector, the Treuhand had to establish one criterion: that the value of Laubag and Veag – both interdependent in the sense that Veag relies on Laubag's coal, and both have the same buyers – could not be played off against each other. Since electricity prices in Germany are among the highest in the European Union, there were fears that the bidders for Laubag would beat down the Treuhand with the aim of concentrating on extracting large profits from Veag's electricity sales once the privatisation deal had been closed.

After endless negotiations, the settlement for the sale of Laubag and Veag is nearly complete. Last February, RWE, and the other utilities agreed in principle to buy Veag for DM8bn, while Rheinbraun will make a down payment of DM2.1bn for Laubag, with a commitment of a further investment of DM6bn over the next 20 years.

In all, Laubag's current work force, down from more than 60,000 to just under 12,000, will be further reduced to 7,000 by the year 2000. Veag, which before unification had a work force of around 29,000, now employs 14,500, and the numbers will continue to fall.

Treuhand officials argue that, given the constraints of the Stromvertrag, they attained their twin goal of securing jobs and privatising the industry.

Nevertheless, once Veag and Laubag is finally privatised, it will give west Germany's utilities a virtual monopoly over the generation and distribution of electricity throughout east Germany.

Mr Jürgen Stotz, a member of Veag's board, staunchly defends the Stromvertrag and says that even if he could start again to restructure Laubag and Veag, he would not radically change what had already been done.

The former east German communists made brown coal mining a priority, with scant attention to the environment

"We were faced with a political and social problem," he explains. "We had to find a way of securing a future for brown coal, a DM40bn investment programme to upgrade, or build a total of 13,300 megawatt capacity (most of it reliant on brown coal) and at the same time have a programme to introduce a massive recultivation policy."

Mr Stotz added that when the restructuring is complete, the east's energy sector, including the brown coal fields, will not be subsidised, unlike west Germany's hard coal, each tonne of which is subsidised by about DM180 to keep coal imports down – "what we have done in eastern Germany will have been worth it," he said.

Nevertheless, some energy experts still ask whether it would have been possible for Bonn to revise the Stromvertrag in a way which would open Veag and Laubag to international competition, thus giving the east German consumer cheaper electricity as well as making eastern Germany the catalyst for opening up the country's energy sector to competition.

Gas privatisation benefits are disputed

High pressure policies

The Treuhand privatisation agency and the government in Bonn have succeeded in modernising east Germany's gas network. But if they also aimed at a truly competitive industry they have some way to go.

In the opinion of the London-based Royal Institute for International Affairs, "domination by west German companies [in eastern Germany] meant a missed opportunity to strongly boost competition. As yet, no clear benefits for small consumers have emerged."*

This missed opportunity occurred in the summer of 1990 when Verbundnetzgas, or VNG, east Germany's gas transmission company, was placed under the Treuhand. The agency allocated 35 per cent of the shares to Ruhrgas, Germany's largest gas company, and 10 per cent to Brigitta Erdgas-und Erdöl (BEB) in Hanover. (Ruhrgas also has a share in the latter.)

Under pressure to open up the remaining shares to non-German gas producers and transmission companies, the Treuhand finally distributed its own 55 per cent share to Elf Acquitaine, Statoil, Gazprom, Gommern and British Gas, each with 5 per cent stakes. The rest were distributed to eastern municipalities which obtained 15 per cent plus one share, and to Wintershall, the gas arm of BASF, Germany's largest chemicals group, which also received 15 per cent plus one share.

However, given Ruhrgas's close connections with the municipalities, VNG is effectively dominated by the Essen-based company – "Ruhrgas controls 60 per cent of VNG. You could have had competition had Wintershall received equal shares to Ruhrgas," says Mr Herbert Detharding, chairman of Wintershall.

After bitter wranglings with the Federal Cartel Office, at which Wintershall in particular tried to increase its stake as a means of breaking down the monopoly structure, and endless disputes over the price to be paid for Russian gas sales to VNG, the ownership structure for VNG remains unchanged and stable and guaranteed gas supplies are now finally in place for eastern Germany.

Eastern Germany's gas sector has enormous potential, largely because growth is coming from a very low base. This is because the former east German communist regime relied heavily on brown coal, or lignite, to fuel the manufacturing sector and industrial sector. Until unification, lignite accounted for over 70 per cent of the primary energy market, and natural gas a mere 10 per cent; for domestic consumers the ratio was about the same. Several studies, including reports drawn up by the Ifo economics institute in Munich, Prognos in Basle and Esso in Hamburg, reckon that gas consumption in eastern Germany is set to increase from 56bn kilowatt-hours, to between 200bn and 225bn kwh by 2010.

To meet this extraordinary growth potential, VNG has embarked on an ambitious modernisation programme. It entails converting town gas production plants – currently fed from a low quality gas – to natural gas; the construction or conversion of long-distance gas pipelines and regional and local pipeline systems; the conversion of underground town gas storages; and the conversion of gas heaters, cookers, and other gas-fired installations.

Mr Wolfgang Eschment, a member of VNG's board, says 820,000 households, the equivalent of a third of east Germany's 2.8m users of town gas, had already been converted to natural gas by 1992 and a further 1.2m by the end of 1993 – "by 1995, I reckon we will have converted about 80 per cent of all these customers."

VNG, backed by Ruhrgas, did not waste time in finding new customers. The fact that VNG had close links with the municipalities – who are represented on VNG's board – meant that they could win contracts without undue competition in the towns and cities. In addition, to ensure almost blanket control over the gas sector in many municipalities, VNG has obtained sizeable stakes in energy companies, particularly in Leipzig, one of the fastest growing economies in eastern Germany. It has also secured contracts allowing it to supply 100 per cent of natural gas needs, apart from Leipzig, to other cities, including Halle and Freiberg.

Since 1991, the integrated gas pipeline system operated by VNG, and Erdgasversorgungsgesellschaft, or EVG, the Leipzig-based gas transmission company in the states of Thuringia, Saxony and Saxony-Anhalt in which VNG has a 50 per cent stake, exceeded 4,495km. The two companies operate an integrated gas pipeline network of more than 8,800 km. A report by VNG estimates that with these pipelines in place, by 2000 its new customers will include a third of all dwellings in eastern Germany.

VNG's two underground facilities of Ketzin and Kirchheilingen have also been converted and others have been expanded providing total storage capacity for VNG of about 1.62bn cubic metres by 1992, while the first pipeline connection with Poland was constructed in late 1992.

Despite the conversion programme, sales of gas have yet to stabilise. VNG's total sales in 1992 amounted to 85.8bn kwh; some 8 per cent less than in the previous year. Of this amount, sales of town gas fell by 31 per cent to 13.4bn kwh, as households started to switch to natural gas.

VNG admits that neither new nor existing customers can help compensate for the sharp fall in sales of industry, caused largely by the collapse of eastern Germany's manufacturing base. "But there is no doubt about the growth potential of the region's gas industry," says Mr Eschment. "Our customers know we give them an excellent back-up service and a good price."

But are the consumers being given choice?

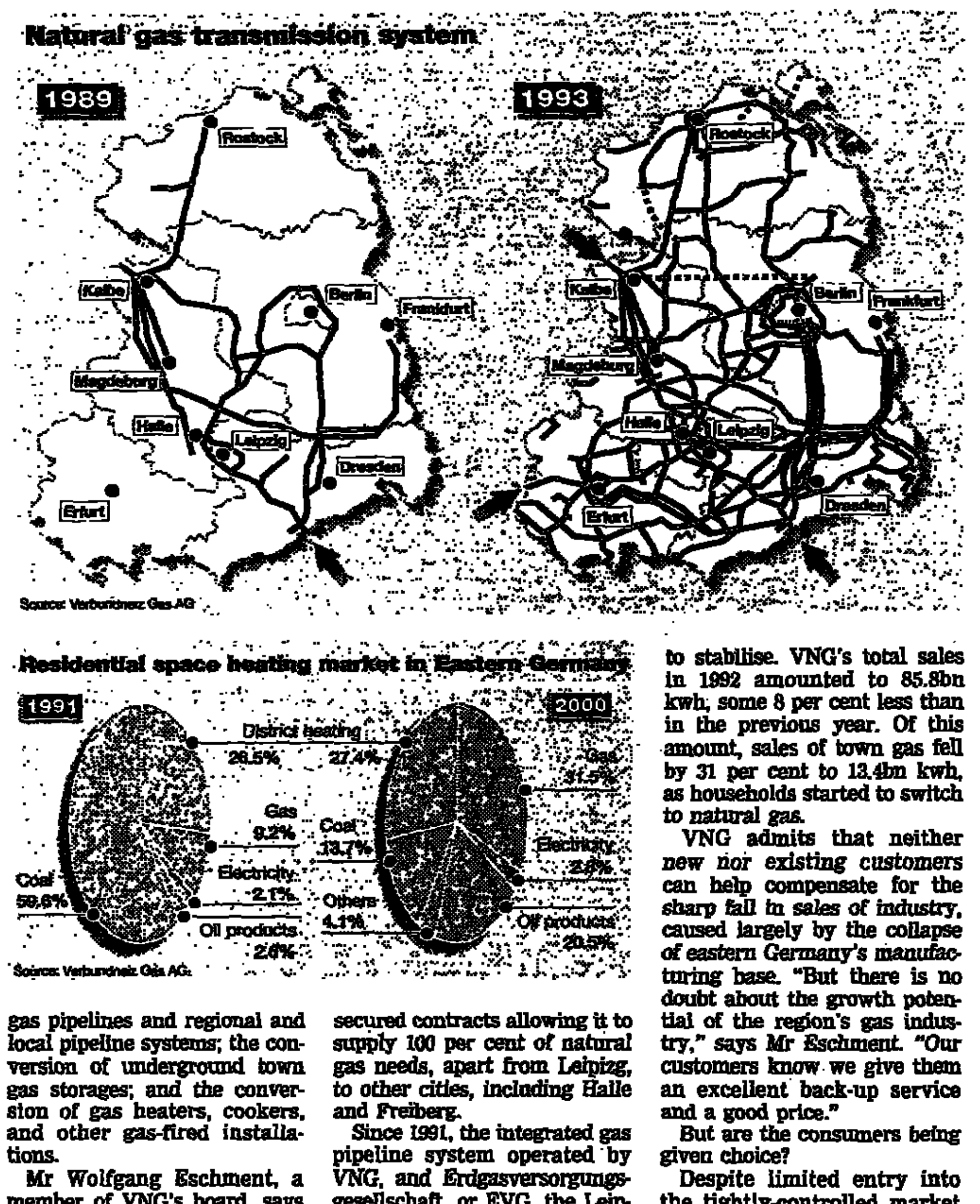
Despite limited entry into the tightly-controlled market by British Gas and Wintershall, VNG, and its patron, Ruhrgas, do not face any serious competition. Moreover, the way in which gas is distributed in eastern Germany means that the consumer pays a heavy price for gas.

As in western Germany, Ruhrgas sells its gas to distributors, which, as is the case in the east. The distributors in turn sell the gas to the municipalities, which are responsible for distributing and selling gas and electricity to the consumers, and where the eventual price of gas is set. Essentially, the consumer ends up paying for two sets of middlemen.

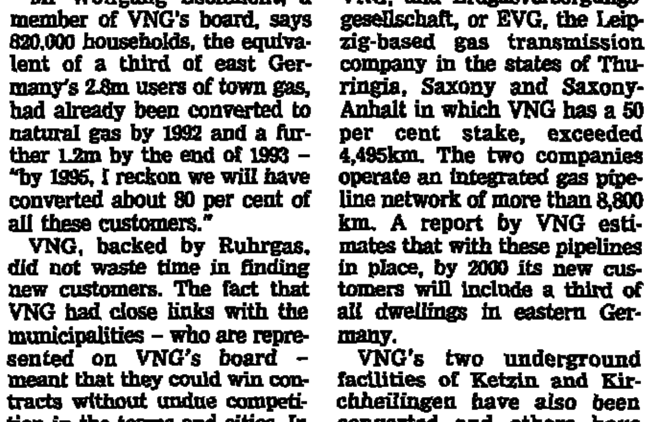
What Wintershall wanted was to sell gas directly to the eastern consumer, thus making it cheaper. But given VNG's close relations with the municipalites, and since the cities themselves have the concessions rights enabling them to issue permits for anyone entering the transmission grids, the chance for the east German consumer to exercise choice in price and supplier has been severely limited.

For his part, VNG's Mr Eschment argues that since the restructuring of the gas sector eastern Germans have gained an efficient and modern network backed by investments totalling DM346m in 1992. This includes DM160m targeted on the construction or extension of natural gas pipelines, and DM56m on engineering and telecoms equipment.

* *German unification and EC Integration: German and British perspectives. Editors, Barbara Lippert and Rosaline Stevens-Strömann. RIIA/Pinter Publishers. 1993.*



Source: Verbundnetz Gas AG



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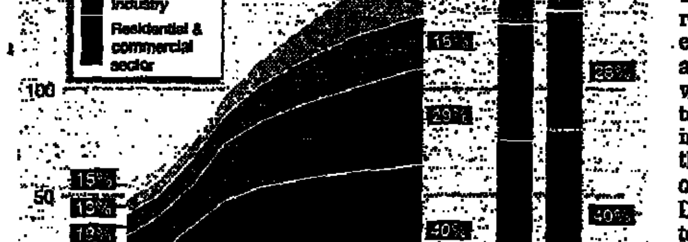


Source: Verbundnetz Gas AG

RESTRUCTURING OF EASTERN GERMANY 9

Judy Dempsey tours Görlitz, a divided city on the Polish frontier

The barbed wire remains

The rusty barbed wire separating Poland from Germany had not yet been taken down. The road and border crossing signs needed a coat of paint. But the Polish border guards were no longer surly.

They casually inspected my passport. Perhaps they were more interested in the traders close to the bridge which connects the German and Polish sectors of Görlitz (the Polish part is called Zgorzelec). Energetic young Polish men were trying to sell cartons of cigarettes to visitors.

As the thick cold fog gave way to heavy rain, I crossed the bridge over the river Neisse from Poland to the German side of Görlitz, an old merchant city once granted trading privileges from the King of Bohemia.

Located in the south-eastern corner of eastern Germany, the city had been divided after the second world war, when the said Neisse (which flows through Görlitz) became part of Poland's new western border. With the collapse of the Iron Curtain, the German half of the city is trying to find its place in the new united Germany. At the same time, the gap between Görlitz and Zgorzlec is widening, particularly

'We want investors to use Görlitz as a stepping off point for Poland'

in infrastructure, thanks to assistance from Bonn and the state of Saxony.

"We want to put Görlitz on the map and attract investors here," said Mr Jörg-Peter Thoms, an official responsible for construction and economic issues at the city's local council.

Before German unification many of Görlitz's 89,000 people were dependent on Deutsche Waggonbau, the large rail carriage manufacturer which employed 3,800 but today has fewer than 1,650 on its books, the textile industry, and the electricity complex at Hagenwerder, which will be closed down by 1997.

"There are investment opportunities and the state of Saxony offers financial incentives for anyone setting up business here," said Mr Thoms. The city had DM14m-15m in grants for the centre itself, but investment had been sluggish. "We have to improve the routes into Görlitz," he explained, adding that once the A4 motorway was complete, and the train services improved, this extraordinarily beautiful city, one of the few in eastern Germany whose centre has not been spoiled by crass communist pre-fabricated architecture, would prosper. He is also waiting for an end to the recession in western Germany.

Recession apart, investment in Görlitz is also linked to resolving the outstanding property questions. Although investors have priority over restitution, compensation claims by former owners continue to act as a brake on investment.

Ms Annette Kreisch, 25, is the acting head of the Property Rights office in Görlitz. The office has had no department head since last October, when the last one, a west German lawyer, left, the third to do so since late 1990.

Since that time, the inadequate staff of 22 people – all east Germans – and all confronted with complex legislation on property rights – have had to deal with more than 6,400 claims. By early 1994, the office had resolved 2,300 of them. It is estimated that the remaining 4,100 cases will require at least another four years.

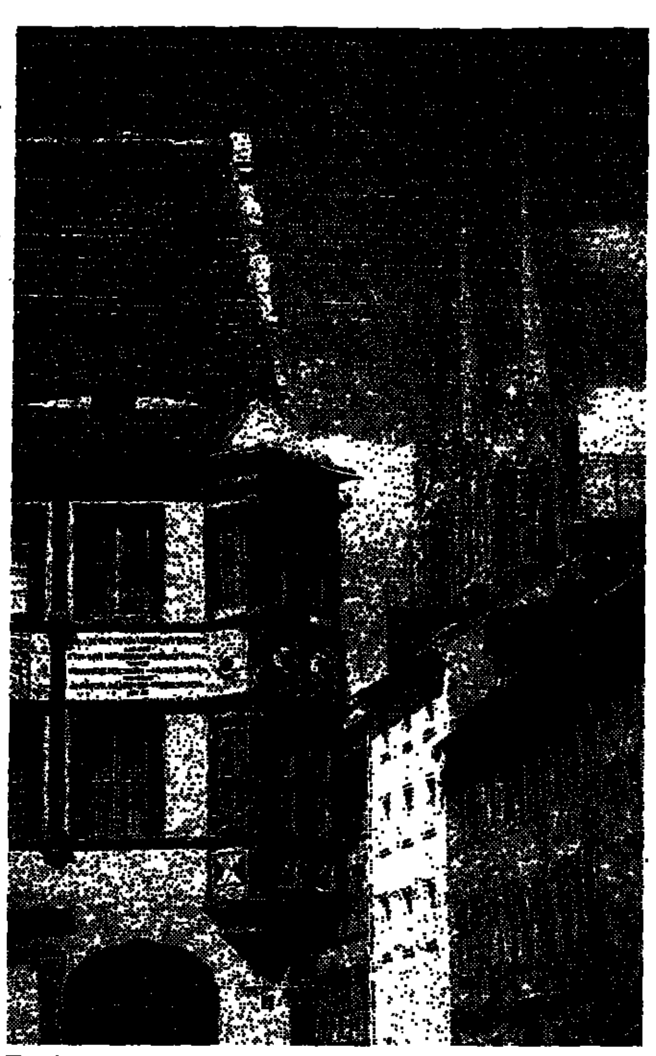
"We are faster than some other offices in eastern Germany," said Ms Kreisch. But some claimants, including Mr Frederick Kaufmann, who had to leave Görlitz in 1938, have been trying nearly four years to get their property back.

The local Chamber of Commerce, or IHK, says the property rights issue is not holding up investment. "Investment, in the form of services, and even manufacturing – Siemens, for instance, has bought the Turbinenwerk here – will pick up once the infrastructure improves and the recession ends," said Mr Bernd-Flamminger. The IHK'S members have invested DM153m since 1992.

"You see, we want investors to use Görlitz as a stepping off point for Poland, as well as to countries in the former Soviet Union. It makes sense. By using our city as a base, companies can do business with eastern Europe." Officials at the IHK are all too aware that Görlitz has to compete with Leipzig, one of the fastest growing cities in eastern Germany, and Dresden, the state capital of Saxony.

"Look, it's the unemployment that gets people down," said Mr Klaus Ulrich Eisenhammer. Mr Eisenhammer works at the local employment office, a modern bright building which was home to the Pentacon camera factory. But it was forced into liquidation and closed after unification with the loss of 1,500 jobs.

"I don't want to sound pessimistic, but there's not much left of the old Görlitz in terms of local industry. The textile enterprises, which once



The historic merchant city of Görlitz offers new incentives for investors

Building confidence: Matthias Lechner, the energetic mayor

employed 2,000 have closed. Women have borne the brunt. Two out of every three people unemployed are women," he said.

The employment office, which also serves nearby Bautzen, last year spent more than DM3bn supporting the unemployed and those on government-supported job creation and retraining schemes and those who had taken early retirement. "There were 6,196 unemployed. If we add the other class of unemployed, those on the government schemes and short-time work, we have an additional 7,000 people. That's a lot of people," said Mr Eisenhammer, who admitted that the really secure jobs were at the employment office.

He was hopeful about one thing – "we have to rely on the small craftsmen and traders to soak up some of the unemployed. That's a real plus, especially as more and more people, and former owners renovate their houses and investors modernise offices. But you know because of border zone regulations, contractors here can legally hire Polish workers from just across the border and pay them far less."

Across town, Mr Roman Müller, managing director of Deutsche Waggonbau, or DWA, knows how much the people of Görlitz depends on the 145-year-old railway carriage manufacturer. Unlike other Treuhand enterprises, DWA makes money. Consolidated profits for the group weres DM23.3m in 1992 on a turnover of DM3.6bn, with the Görlitz branch accounting for DM16m. Despite selling only to the east German and Russian market before unification, DWA Görlitz has managed to earn half its last year's turnover of DM420m from the German market. Retaining the current levels of employment, just under 1,700, will depend on how the Treuhand privatises DWA – as a whole or in parts – as well as orders from Russia. The shortage of hard currency in Russia has meant that the management in Görlitz has placed more than 400 of its employees on short-time work.

Görlitz needs someone like Mr Matthias Lechner, its energetic mayor, to instil hope and a sense of perspective. But the 42-year-old aspiring politician, is no idealist. Before unification he belonged to no party and now belongs to Chancellor Helmut Kohl's governing Christian Democrats. He has few illusions about the time it will take to restructure industry, as well as build a new political infrastructure.

Since May 1990, he had spent at least 12 hours a day trying to rebuild confidence among a community suffering from 35 per cent unemployment, if one takes into account all the people on retraining and job-creation schemes.

What surprises him was "how quickly people forget the past. It's only four years since unification, yet people sometimes think the old days were better. It's a strange phenomenon."

One of the greatest difficulties facing Mr Lechner is persuading people to become politically engaged – "you need a lot of time for politics now. I don't think people want to spend that much time, particularly since politics means accountability. When the council, for example, wants to raise the price on the public transport in order to pay for infrastructure costs, we were faced with a lot of complaints and naturally we have to explain all our decisions. Money is precious. We have to be careful how we spend it."

According to Mr Lechner, the debts of Görlitz amount to DM1,240 per capita of the local population, a level typical of other eastern German towns and cities. "We have a credit line of DM100m from the banks and a separate budget of DM250m. But our tax revenue income is only about DM30m. Reaping results from local government politics is a slow process.

"You have to remember that people were so politicised in the old sense, that after unification they simply withdrew and tried to cope with unification and the traumas thrown up by it."

Mr Lechner, who is standing again as mayor in next June's local government elections, believes he can muster enough support to win, although he – and his deputy, Ms Renate Schwarze who represents the opposition Social Democratic Party – have few party activists upon whom to rely. The CDU in Görlitz has 250 paid up members; the SPD, 80.

Investment case study: SMI Microelectronics

Long way from Santa Clara

You only have to stand in the small "clean" room at SMI to grasp what is taking place in this US-backed microelectronics enterprise at Markendorf, near Frankfurt an der Oder on the Polish border.

Through the windows on one side of the room one sees the remnants of eastern Germany's old microelectronics industry. It is a big workshop, decked with large computers, some covered with plastic sheets.

On the other side of this insulated room is a small, modern testing station installed last year and poised to supply its products to the European market.

The east German engineers, dressed like surgeons, quietly pass from one old world of increasingly out-dated technology to the new laboratory. They are symbols of transition taking place in the east German economy.

But it has been a hard slog for Mr George Brown, the director of System Microelectronic Innovation, or SMI, and a far cry from Synergy Semiconductor Corporation, his parent company in Santa Clara, California.

"It has been slower than we expected, but we are getting there," said Mr Brown, whose offices overlook what was once eastern Germany's main microelectronic enterprise.

In a search for more capacity, the US company bought a 49 per cent stake in the old VEB Halbleitwerk from the Treuhand privatisation agency in March 1993. The Kombinate, or enterprise, used to employ 8,000 people and was one of the main enterprises supplying the circuits for the east German consumer market – mostly for television sets.

But following German unification, the collapse of the east European and Russian markets, and the exposure of the Kombinate to competition, the Treuhand pared down the work force to 1,200 and set about preparing it for privatisation.

Mr Brown, whose US company was also seeking a foothold in Europe, eventually acquired the stake and a reduced workforce of little more than 600. Boosted by investment grants from the eastern state of Brandenburg and from the federal government, and a commitment by the Treuhand to pick up losses and redundancy payments, he agreed to initially invest DM45m for new equipment to produce ECL logic devices and ECL RAMS, used mostly in radio equipment.

Initially it had been hoped that SMI could continue to hold on to some of its east European, Russian and east German customers, which before unification accounted for almost 100 per cent of the company's turnover. But the shortage of hard currency and the need to find a niche in the European market meant that Mr Brown had to reverse the company's strategy towards the west.

The first year was spent on completely modernising the plant, and introducing new product lines. This meant training the engineers, either in Santa Clara, or bringing over US engineers to SMI.

During this time, the company's turnover to the eastern European and local east German market virtually collapsed, falling from DM70m in 1991/92 to nil by the end of last year.

"We now have only one option. We must continue to invest, and heavily. What we are bringing here is technology, knowhow and a new product idea. But it will take time to turn the company around," said Mr Brown.

Like the "clean room", the company finds itself in a finely balanced period of transition. As testing takes time, and money – it has already received quality certification for one of its locally produced integrated circuit lines – it must utilise its capacity to gain turnover before new lines are ready for full production. Currently, the plant is operating at 20 per cent capacity.

But increasingly, as investments lead to production, SMI is subcontracting as an interim measure – "we have five foundry customers, some for Europe, others for the US," said Mr Brown, adding that SMI is trying to attract companies which have neither enough or no capacity for production. Already SMI is supplying Grundig, Blaupunkt and automobile manufacturers with its products. Sub-contracting now accounts for nearly two-thirds, or DM18m, of SMI's turnover and capacity is expected to reach 50 per cent by the end of this year. Turnover for this year could reach DM46m.

But neither Mr Brown nor Mr Max-Eberhard Lösel, the manager of the enterprise, wants SMI to evolve into a business anchored on subcontracting. The raison d'être of the enterprise is to develop and market its own products, particularly analog designs – circuits for radio-controlled clocks, power switches and high frequency integrated circuits for telecommunications.

"Foundry business is very competitive. But it is a fairly low margin business," said Mr Lösel. "You can't build a business on it alone. We need high value-added products and innovative products which can ultimately create high technology jobs."

Through their investment programme, Mr Brown and Mr Lösel want to enter the high end of the market. In short, they want to adopt the "leap-frog" approach, whereby they can skip the intermediate technology by introducing the highest levels of innovation.

But the sprawling 1 sq km large site which they have inherited does not lend itself

High technology environment: SMI's 'clean room' at Markendorf

easily to the leap-frog theory largely because SMI, unlike some other west German electronic companies, was not in a position to acquire a greenfield site and build a completely new company. This means that the first two years will be spent modernising, updating and equipping SMI with new technology.

"What we want to do here requires a different know-how. We need to work much more efficiently to cover costs. We are even occupying more space than we need," said Mr Brown. That was why SMI's management was interested in acquiring partners.

It has been a slow process, but Mr Brown and his colleagues reckon that by the end of 1994, its own new products will be on line. "It has taken time. Maybe we didn't expect the complete collapse of the east European and Russian markets. Maybe we did not anticipate the recession in Germany," said Mr Brown. "But we have extra capacity here and we have Europe as our market and that's where we are heading."

Judy Dempsey

A different life without Big Brother

Frederick Studemann on how capitalist realism came to the theatre

Before the collapse of East Germany, actors at the Deutsches Theater in Berlin led a life which their colleagues in the west could only dream about. Every night the auditorium of the impressive neo-classical building near the Friedrichstrasse station was packed.

Even better than the thrill of performing to a full house was the fact that the audiences took a keen interest in every word and movement in a studied search for any deeper meaning. Celebrated on stage, the actors and their directors also enjoyed a life outside the theatre as bohemian types who were not expected to conform to the rigours of state socialism.

Today, like every other sector of east German society, the members of the Deutsches Theater are having to adapt to the rigours of capitalism. Lively artistic types they may still be, but their theatre is often just over half full. The days when drama was everything, and finance just a series of figures are over – "the main thing that everyone talks and thinks about now is money," says Maik Hamburger, the theatre's literary adviser.

Money is something everyone involved with culture in eastern Germany has had to seriously think about in the last four years.

During that time the relatively generous hand of an omnipotent central government has been swapped for that of the cash-strapped local authorities. In line with the country's federal system, cultural funding in Germany is today carried at the regional, or state level.

In the case of the Deutsches Theater, it is the city of Berlin that provides the lion's share of the theatre's budget. Subsidies to the theatre this year are DM32.67m. Last year, they were DM29.76m. But box office receipts in 1993 only amounted to DM2.4m and this year they expect DM3.1m, with an audience capacity of 72 per cent.

Although the city of Berlin has earmarked the Deutsches, as it is known, as its show-case for classical drama, and therefore deserving of substantial funding, it is still on a much shorter leash than in the past. Then no one really bothered with costs as it was always assumed that the state would provide extra funds if necessary.

Now, for the first time, the Deutsches has taken the step of taking a production off for financial reasons. Ironically, the play in question, Eugene O'Neill's *The Iceman Cometh*, was reasonably successful. It was taken out of the theatre's repertoire programme because there was no money to pay for the storage of sets between performances.

Mr Hamburger now worries that financial pressures will cut the quality of the theatre's work, and lead to a situation where once again artistic policy is curtailed by outside considerations. The danger is, Mr Hamburger believes, that the overt political censorship of the communists is being replaced by the dictates of the box office. "There have been internal conflicts over whether we should make more artistic concessions or not. The management wants plays with a large popular appeal, but the artistic side is keen to do more exciting stuff," he explains.

This internal tussle is of course about more than just the filling of seats. To many of the members of the 170-strong staff of the Deutsches' company, it is also about the perceived threat of westernisation of the theatre in the east.

As far as the audience is concerned this change has already taken place. Since the Berlin wall fell, the audiences at the Deutsches have been increasingly made up of people from west Berlin, attracted by the theatre's reputation and its grand appearance. On an average night the audience make-up mirrors that of Berlin as a whole – two-thirds western, one third eastern.

What they get to see is a culture in transition. Under the communists, theatre performed a unique role as an unofficial form of the media. Plays which were seemingly devoid of all political or social content would be reworked to give them a topical edge.

Audiences were trained to see an elaborate critique of totalitarianism in a few lines of Goethe, to see Hamlet turned into a symbol of the painful indecision and self-obsession of the opposition dissidents groups.

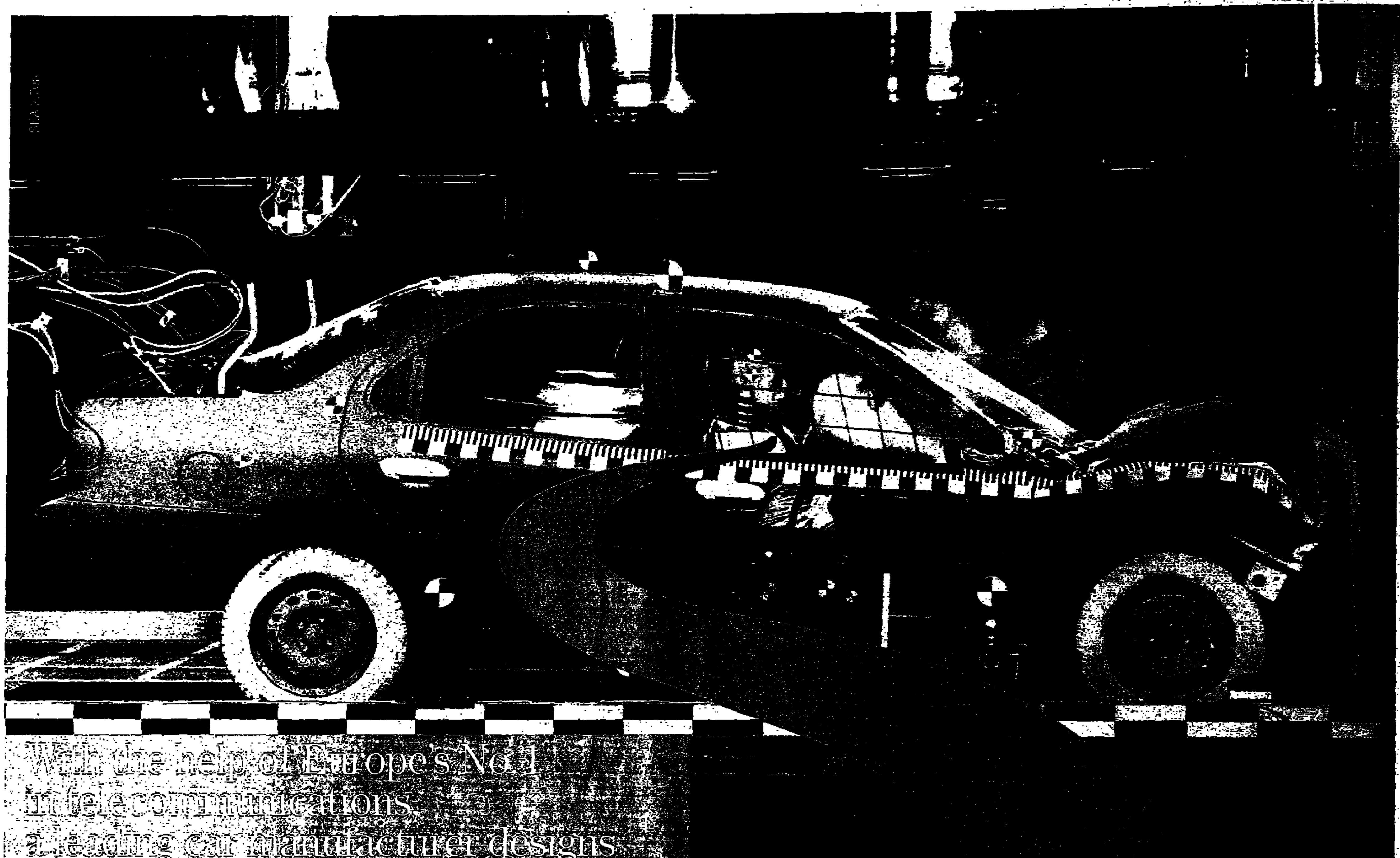
Now such tactics are redundant – "the actors say that today the audiences are reacting on a more direct level to the texts and not looking for hidden meaning," says Mr Hamburger. This means that the Deutsches is now looking for new forms of subtlety. This is a process that can be quite exciting to watch. Recently, for instance, the Deutsches put on a play by Botho Strauss, a western playwright noted for his mastery of subtlety. Getting to grips with this very western work was tough. "We found it quite hard because we do not have this taste for deep inward searching and most of us do not find it important," says Mr Hamburger.

Other attempts to combine east and west have produced surprisingly topical results as shown by the production of Tankred Dorst's play *Herr Paul* which is currently in the repertoire programme. Dorst, a west German, originally began working on the play in the 1960s.

Set in 1950s west Germany the play is the story of an old man who lives in a soap factory who is faced with eviction by the building's youthful owner who is keen to redevelop the site.

When Dorst began writing the play it was intended to show the fundamental changes taking place in post-war west German society, the conflict between the old and the new.

Now on stage at the Deutsches it has acquired a totally different quality as anyone who has followed the complicated issue of property rights in eastern Germany can testify.



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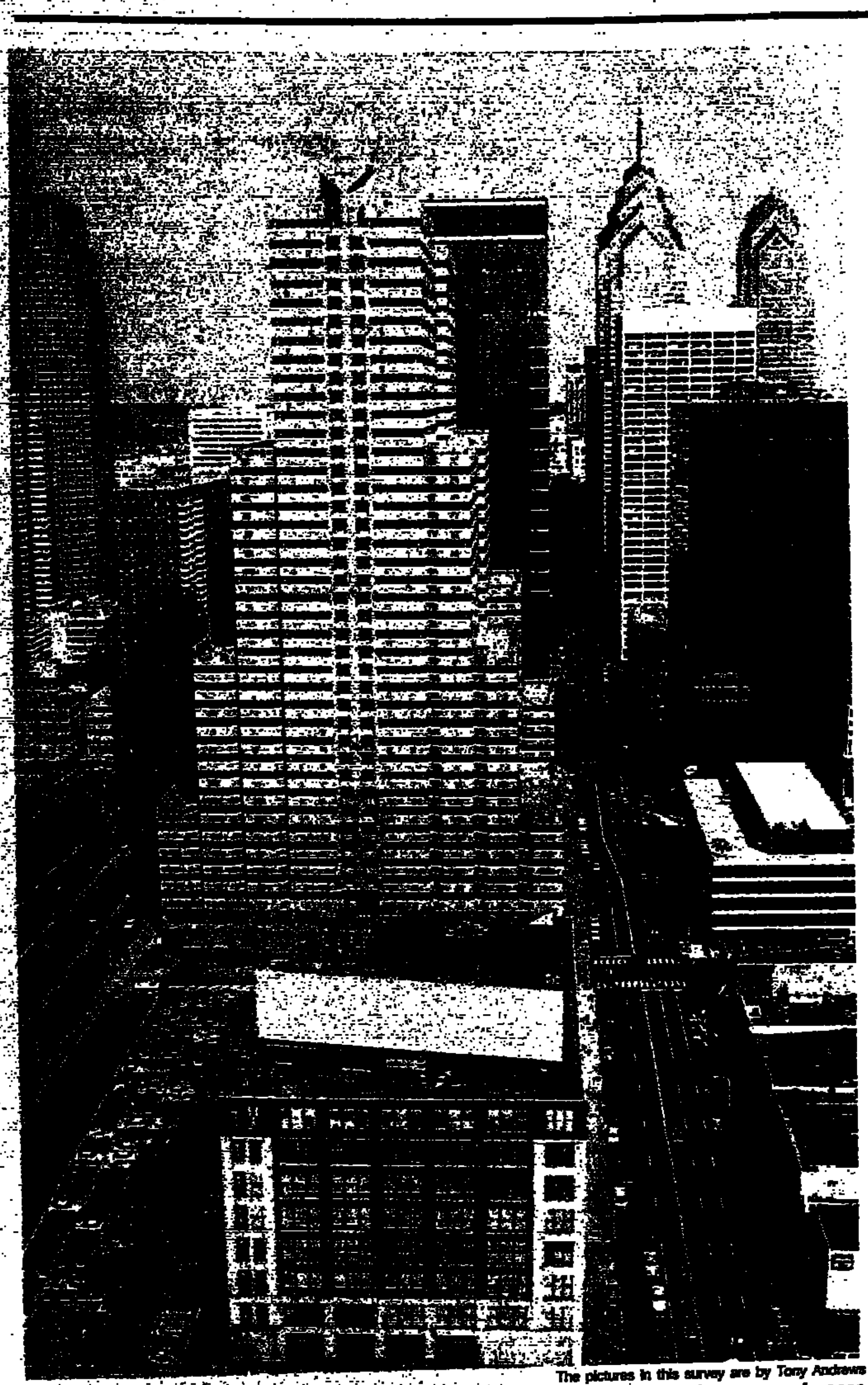
GREATER PHILADELPHIA

Wednesday May 4 1994



The pictures in this survey are by Tony Andrews

Towering [illegible] downtown Philadelphia is enjoying its own renaissance

Rescued from the brink of disaster

The municipal budget has been restored to health, writes Patrick Harverson. Now the city hopes that the continuing loss of jobs can be halted

"Philadelphia", a Hollywood movie about a lawyer with Aids who sues his firm for unfair dismissal, was released last year to rave reviews. Tom Hanks won the best-actor Oscar for his performance as the lawyer.

The film was made almost entirely on location in Philadelphia, and the city has a story to tell of its own. Philadelphia's story has earned rave reviews, too, and its leading man, Mayor Edward Rendell, would win an Oscar for best mayor if awards were given for municipal governance.

The Philadelphia story is about a city that comes back from the brink of disaster to emerge as a bright spot on the sometimes bleak landscape of urban America. Three years ago, the city faced financial ruin. Today, it has recovered to a point where the city will soon report a budget surplus for the second consecutive year. Jobs growth in the metropolitan region is picking up after a prolonged slump, and a huge new convention centre is attracting thousands of visitors to the downtown area. Philadelphians, notoriously difficult to please, are now proud of their city.

The contrast between the current bright outlook, and the dark days of the early 1990s, could not be greater. At the start of the decade, years of falling local payrolls, a shrinking tax base, declining federal assistance, local political gridlock, an ever more costly city bureaucracy, and swelling social problems had reduced Philadelphia's finances, and its self-esteem, to tatters.

By early 1992, the situation had deteriorated so far that the city faced a deficit of $230m, out of a budget of $2.4bn. Philadelphia could not meet its bills, and the rating on its bonds had been reduced to the level of junk by Wall Street.

In January 1992, Mr Rendell, Philadelphia's newly elected democratic mayor, understood that the situation was desperate. "In USA Today [a national newspaper] on the day I was inaugurated, there was a little blurb on the front page that said I would inherit the worst municipal financial horror story in America. When I read that, I almost told the fellow who was driving me to the inauguration to take me down to Atlantic City so I could blow off the day and play the blackjack tables."

Mr Rendell resisted the temptation, not least because he had campaign pledges to keep. He won the mayoral election after promising to do what previous administrations had never done: cut spending to balance the budget, reform municipal government, and do everything possible to promote economic development in the region.

At the heart of the city's immediate problems in 1992 was the escalating cost of local government. With the crucial support of John Street, the powerful president of the city council, and after facing down a brief municipal workers strike, the new mayor eventually won a series of money-saving concessions from city unions. They included a two-year pay freeze; a reduction in paid public holidays; big changes in work rules and practices; agreement on the privatisation of some city services; and cuts in union health plans.

The concessions cut almost $100m from the city's annual budget. Along with $84m in savings achieved from management streamlining, Mr Rendell was on his way to balancing the budget. As he now proudly recalls: "By June 30, 1993, 18 months after we started, we had a $3m surplus. And we did it without raising one nickel of taxes."

Solving the budget crisis was important not just in purely financial terms. After years of mismanagement, the image of a competent municipal government at City Hall helped repair Philadelphia's tarnished image, in the eyes of locals and those from outside.

After balancing the budget, the Rendell administration wasted little time in building on its success. The savings from the union concessions were part of a five-year fiscal plan intended to ensure the city's finances were stabilised over the long term. The plan was praised on Wall Street, which has since raised the city's bond ratings to just below the level of junk, and won the approval of the Pennsylvania Intergovernmental Co-operation Authority, the state agency which – in return for budgetary oversight – has helped raise funds for the city during its crisis.

That the five-year plan is still on course has a lot to do with the revival in the fortunes of the local economy. After lagging slightly behind the rest of the nation, employment in the metropolitan region is now rising for the first time in three years.

Local economists hope that jobs growth will prove sustainable. The greatest strength of the Philadelphia region's economy is its diversity. Once dominated by heavy manufacturing, the metropolitan area is now home to a broad spectrum of businesses, including a particularly heavy concentration of healthcare, pharmaceutical and bio-technology companies. Industries also represented in the region include oil and chemicals (Sun Corporation, Rohm & Haas), telecommunications (Bell Atlantic), computer technology (Unisys), food manufacturing (Campbell Soup, in nearby Camden, New Jersey) and finance (Cigna, CoreStates).

While many of these are located outside the city centre, downtown Philadelphia is enjoying its own renaissance. The new $523m convention centre is providing a boost to local businesses. Tourism is on the rise, and $280m will soon be spent on developing an "Avenue of the Arts" in the heart of the city. Also, there are hopes that by late 1995, riverboat gambling will arrive on the Delaware River.

Yet the Philadelphia story has its dark side. The city has its fair share of urban ills – high rates of poverty, unemployment, crime, homelessness and drug abuse, and poor quality public education. The scars of neglect in many of its neighbourhoods are as bad as any in urban America.

Mayor Rendell, often criticised for paying too little attention to the problems of deprived areas, knows the hardest task is ahead. In the past, he has likened the problem to a man suffering from cancer and a gunshot wound. As Stephen Mullin, the city's director of commerce, explains: "The first thing you have to do is deal with the gunshot wound. And we've done that. We've basically righted ourselves. We're not Beverly Hills, or some fat-cat city, but we have gained significant control over our costs. Now, the question is: what's the story with the economic base of the city?"

The story with the economic base of the city – as opposed to the suburbs, where business generally flourishes – is that jobs are still being lost at too rapid a rate. Philadelphia's employment base has suffered the loss of 263,000 jobs since 1970, 110,000 in the last seven years alone. That is too many jobs gone in a city with a total population of only 1.6m (out of 5.7m who live in the entire metropolitan region).

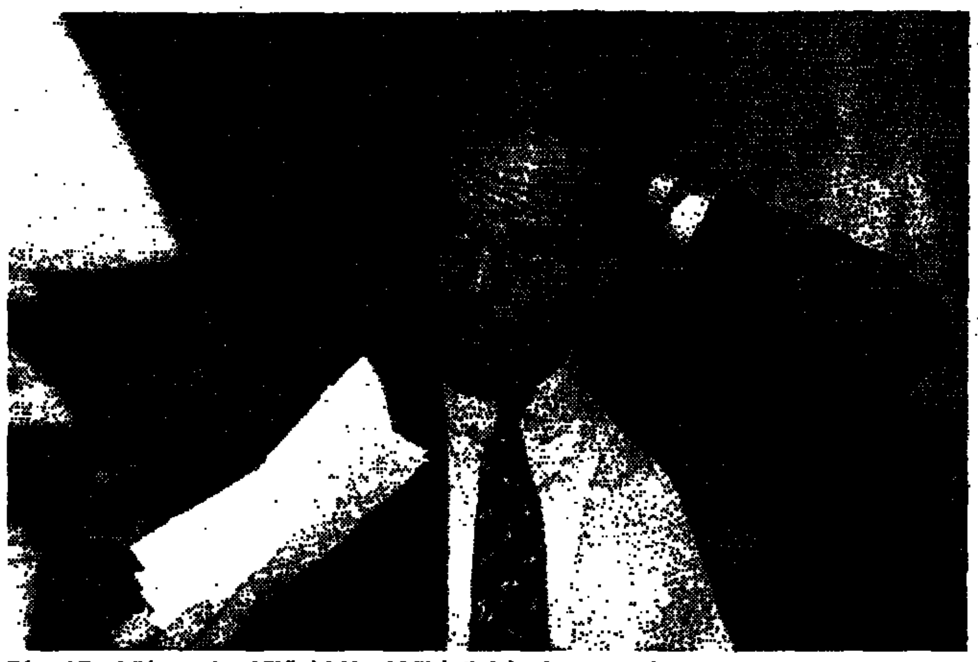
Next year, Philadelphia will lose about 7,000 more jobs when the Pentagon closes the naval yard. As Mr Rendell says: "We need to generate the type of economic development that will employ local people. If we don't do that, with all the successes that we have achieved in Philadelphia, we're not going to make it."

Today, Mr Rendell hopes that a combination of local and national efforts will break the 25-year trend of declining employment. On the local level, the administration has launched an economic stimulus programme which will spend $1.5bn over the next three years to generate economic development. At some stage, that programme must include lowering the city's wage tax, which is so unpopular with local businesses. On a national level, Mayor Rendell hopes that the federal government will adopt a new urban agenda that provides not financial aid, but a range of incentives to lure private sector businesses back into the cities.

For all of its triumphs so far, building a lasting revival in the city's economy is the Rendell administration's toughest challenge yet. As Mr Peter Hearn, a former political opponent of the mayor and a leading Philadelphia lawyer, puts it: "The mayor has hit a grand-slam home run in each of his first two years. But to really have an impact on Philadelphia in the long-term, he has to do that every year."

Patrick Harverson traces the impact of a mayor who is admired throughout the US

Municipal superman rescues budget



Edward Rendell has restored Philadelphians' faith in their local government

He is riding high in the opinion polls, and is the subject of almost universally positive coverage in the media. Everywhere he goes there are warm greetings and words of encouragement. He is now so well-known nationwide that he has been dubbed "America's Mayor".

Barring disaster, he will win re-election by a landslide next year. He has even appeared in a Hollywood movie starring Oscar-winner Tom Hanks.

Meet Mr Edward Rendell, mayor of Philadelphia, probably the most popular politician in the US today.

In his 27 months in office, Mr Rendell has earned a reputation as one of the the most effective mayors in the US. During his term, Philadelphia's finances, so desperate in 1992, have been restored to good health. The city is now poised to announce its second consecutive budget surplus, and the pace of local economic growth is finally beginning to pick up.

The flight of jobs from the city and region has not been stopped, but it is slowing. Philadelphia's relations with the Pennsylvania state capital of Harrisburg, and with its neighbours across the Delaware River in New Jersey have improved greatly. And with the help of its pro-business mayor, the city has won the support of a once-hostile local business community and the respect of Wall Street, where Philadelphia's bonds may soon lose their "junk" rating.

A 'new Democrat', he's a conservative on fiscal policy, but a liberal on social policy

Perhaps as important as anything else, Mayor Rendell has restored Philadelphians' faith in their local government. Mr Peter Hearn, partner at the law firm of Pepper, Hamilton and Scheetz, and Mr Rendell's principal opponent in the race for the Democratic nomination prior to the 1991 mayoral election, says that the mayor is extremely popular because he has proved that local government can work. "This has been a wonderful demonstration of good government being good politics."

Admirers also claim that Mr Rendell's growing national stature – he enjoys a close personal relationship with President Clinton – is helping the city. Mr Bob Hall, publisher of the Philadelphia Inquirer and Philadelphia Daily News, says: "His popularity outside the region, and the demand for him as a speaker to mayors' groups, or other political groups, or urban developers, is such a plus for the city. I don't recall another mayor of Philadelphia ever enjoying that national recognition."

So who is this municipal superman?

A native New Yorker, the 48-year old Mr Rendell is a lawyer who has spent all of his political life in Philadelphia. First elected to public office as the city's district attorney in 1977, he ran for governor of Pennsylvania in 1986 and mayor of Philadelphia in 1987. Although he lost both campaigns, he came back strongly to win the November 1991 mayoral election by a landslide on a campaign of fiscal reform.

Although a registered Democrat, his appeal crossed traditional party lines. Like many other so-called "new Democrats", he is a conservative on fiscal policy but a liberal on social policy. He believes that many city services can be improved through privatisation, and that government has to be pro-business if it is to attract and keep jobs in the cities.

Nationally, Mr Rendell may be lauded for engineering the city's financial recovery, yet he is quick to praise his partners in government. In particular, he relies heavily on his main political ally, Mr John Street, the president of the city council. "I do not deserve, by any means, the lion's share of the credit," says Mr Rendell. "We've received wonderful support from the city council, and from it's president John Street."

The mayor's championing of Mr Street is not just political rhetoric. In Philadelphia, the offices of mayor and city council president have traditionally been occupied by politicians pursuing separate agendas and serving different constituencies. For most of the time, it was a recipe for political gridlock.

When Mr Rendell arrived in office, however, he found in Mr Street someone equally determined to end decades of political and financial irresponsibility. Some say that Mr Street has proved the more fiscally conservative of the two. Since the first day of Mr Rendell's term, they have worked in harmony to rebuild the city's finances, constructing a five-year fiscal plan that has been greeted with universal praise.

Mr Fred Voigt, executive director of the Committee of 70, a local non-partisan political watchdog, says the importance of the alliance between the mayor and council president cannot be understated. "Together, recognising the fiscal plight, they took steps that were absolutely necessary. They had to balance the budget, which meant hurting people, saying no to people. Yet, that [first] budget was passed 17 to zero. This last budget had only one vote negative. That's extraordinary."

A welcome by-product of the close working relationship between Mr Rendell, who is white, and Mr Street, who is black, is that it has helped the city avoid much of the racially-inspired political acrimony that has dogged so many US cities.

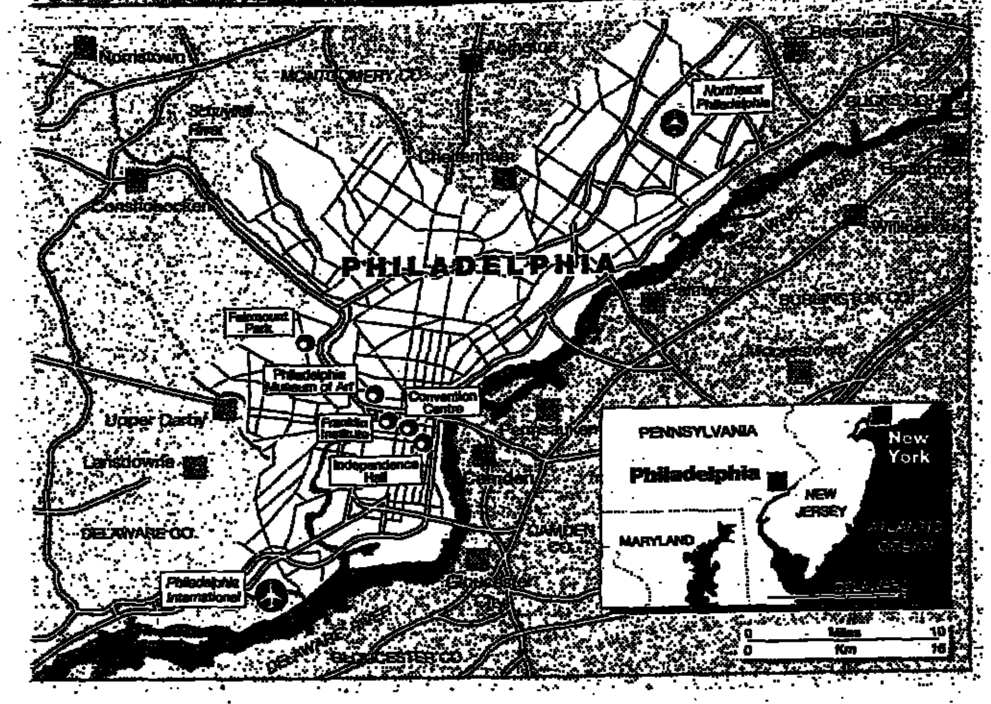
If all this sounds too good to be true, Mr Rendell does have his critics. The cuts in municipal expenditure that have helped him balance the budget since 1992 have come at a cost to some local services. Rubbish collection is now said to be less reliable, aid to museums and libraries has been cut, and the wait for non-emergency treatment in the public healthcare system has lengthened.

He is also criticised for focusing too much on Philadelphia's finances and not enough on its social problems, particularly in the deprived neighbourhoods just outside the city centre where living conditions are as bad as anywhere in urban America.

Mr Rendell counters that the longer-term problems could not have been addressed until the immediate fiscal crisis was first resolved. He knows that, having tackled Philadelphia's financial woes, he now needs to turn his attention to the more serious issues facing the city – too few jobs, too many poorly runs schools, and too much poverty, homelessness, and crime.

Yet, typical among the new breed of big-city mayor, Mr Rendell does not believe urban blight can be addressed by throwing more federal, state or city money at the problem. He sees economic growth and job creation, nurtured by government incentives aimed at attracting the private sector into the cities, as the long-term answer to urban social ills. He says: "If I could create 100,000 jobs paying the inflation-adjusted equivalent of $22,000 a year, I could do more to reduce drug use and crime in the city of Philadelphia than if I had a thousand new policeman."

The Liberty Bell



Old rivalries will be buried when two ports merge, reports **Frank McGurty**

New authority spans the river

The ports of the Delaware Valley already rank among the busiest along the eastern seaboard

The Delaware River is the axis which defines the Philadelphia region. The city and its neighbouring communities grew up around the wharves and warehouses that have thrived along its banks since the days of William Penn.

At the same time, the Delaware is a natural barrier, splitting the region in two. The states of Pennsylvania and New Jersey have traditionally viewed the river as the demarcation line in a struggle over the spoils of the maritime trade.

It is an age-old rivalry which is finally coming to an end. After decades of political wrangling, a preliminary agreement to form a bi-state port authority was reached last December. The agency, which will co-ordinate the activities of publicly owned marine facilities on both sides of the river, is expected to hold its first board meeting in May. It is the first step in an merger process which will take two years to complete.

Proponents of unification believe the move will hone the region's competitive edge as a shipping centre. "The ports will put less effort into competing with one another and more into competing with other North Atlantic ports," says Joseph Menta, a spokesman for the Philadelphia Regional Port Authority (PRPA), which owns piers and freight terminals on the Pennsylvania side.

The new authority must decide which activities might be turned over to the private sector

"The entire port community supports the move," says Mr Tom Kelly, head of the powerful Philadelphia Marine Trade Association, which represents about 40 private steamship and stevedore companies along the river. "It is something that had to happen if we were to remain competitive."

The ports of the Delaware Valley already rank among the busiest along the eastern seaboard. Taken together, their facilities handle some 70m metric tons of international cargo a year, more than any other port on the east coast, including New York, Baltimore and Norfolk.

More winter fruit passes through Philadelphia and Camden than any other port in the US, and they lead the eastern seaboard in imports of meat, paper products and steel. Last year, when ports around the country were experiencing a slowdown, Philadelphia and Camden managed to increase tonnage.

Still, the two sides have expended too much effort in fighting over the same cargo, port officials say. By underbidding one another, the rivalry effectively forced the states to take up more of the tab, in the form of higher port operating subsidies.

Under a plan approved in December, the PRPA will combine its resources with those of its counterparts across the river, the South Jersey Port Corporation. The merged entity, known as the Ports of Philadelphia and Camden, will become a subisidiary of yet another agency, the Delaware River Port Authority (DRPA), which operates a regional mass-transit system and four suspension bridges over the river.

The DRPA is already involved in promoting the regional ports through a network of international offices organised under its world trade division. But its role as trade ambassador created some confusion among overseas shippers. At some point in negotiating a contract, the agency had to defer to the relevant state authority, which would complete the deal.

The fresh approach is intended to bring more coherence to the task, says the Rev Nicholas Rashford, president of St Joseph's University in Philadelphia and chairman of the DRPA. "What is going to change is that the people on the operating level will be doing the marketing," he says. "I think that will make us much more effective."

Even critics of the merger agree that the ports, with the DRPA's assistance, have done a good job of selling themselves, but some question whether the unified agency will do any better.

Leo Donovan, a consultant with Booz, Allen and Hamilton, recommended against the merger after conducting an early study on unification. "Both ports are thriving by competing in their own markets," he argues.

Philadelphia moves large volumes of Chilean fruit, Australian meat, Finnish paper and steel through its terminals. Camden, which lacks facilities to handle containerised cargoes, is strong in lumber, scrap metal and other bulk industrial commodities.

The merger, Mr Donovan says, would not necessarily make the ports more competitive against other regions and would not create the economies of scale necessary to make their operations more efficient.

"The danger is that it would lead to a monopoly which would encourage 'feather-bedding' and patronage" in the staffing of the bi-state agency, says Mr Donovan. Competition between the two had kept workforce levels and labour costs in check, he says.

Mr Rashford says Mr Donovan's criticisms do not take into account the principal benefit of unification – enabling the ports to consolidate their capital investment programmes.

Paul Drayton, executive director of DRPA, said the agency would make available $300m over the next three to five years for port investment and other economic development projects. The money will come from the huge cash surplus which the DRPA generates by collecting bridge tolls.

The agency has already made a big port-related investment with the construction of Amerport, an "intermodal" rail transfer facility opened on the Philadelphia waterfront two years ago.

Amerport gives shippers of intermodal containers – suitable for transport by rail, truck or ship – immediate access to three full-service railways linking the port with most of the US and Canada. The only terminal on the east coast offering such extensive rail connections, it has proved so successful that an expansion is already being considered.

"The idea is to have one agency looking at the big picture, not two looking after their own narrow interests," says Mr Drayton. Instead of duplicating projects, the unified port authority would have the power to develop the two sides in a complementary fashion, he says.

But the DRPA has already raised controversy in its development efforts. Some $50m in financing was approved in the waning days of last year, with most of the money earmarked for projects unrelated to the port, such as a Philadelphia skating rink and improvements to an aquarium in Camden.

Mr Drayton declines to comment on last year's spending decisions, which were made before his appointment. But he says the DRPA would make funds available for both types of development, although it was not holding out "an open checkbook".

"Infrastructural investment has to made in the port," he says, but these are not the kind of investments in which you are going to see a direct return." Where the private investors were unwilling to step in, the DRPA would consider the broad economic impact of its spending decisions, he says.

But one of the tasks facing the new authority, in its role as regional development co-ordinator, is determining which of its activities, if any, should be turned over to the private sector.

"For the region to prosper, it isn't important which operator gets the cargo, as long as someone in the area gets the cargo," says Joesph Diemer, a spokesman for the DRPA.

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In the financial sector, the region has a bit of everything, writes **Patrick Harverson**

Acquisitive CoreStates becomes a target

Like two other historic port cities on the eastern coast of the US, Philadelphia is a mature financial centre. But while New York is the focus of the banking and securities businesses, and Boston is the home of the mutual fund industry, Philadelphia's financial industry is less clearly defined.

Philadelphia does, however, have a bit of everything.

The city and outlying region has large banks: CoreStates is headquartered there; and several other big "super-regionals", such as PNC and Mellon of Pittsburgh and First Fidelity of New Jersey, have a strong presence in the city.

It has insurance companies: Cigna is one of the nation's largest. It has brokerage firms and investment banks: Janney Montgomery Scott is the biggest local firm, and every major Wall Street house operates in the city. It has money management firms: the Vanguard Group, one of the largest mutual fund groups, has $127bn under management. And it has the Philadelphia Stock Exchange, best known for its thriving currency options business.

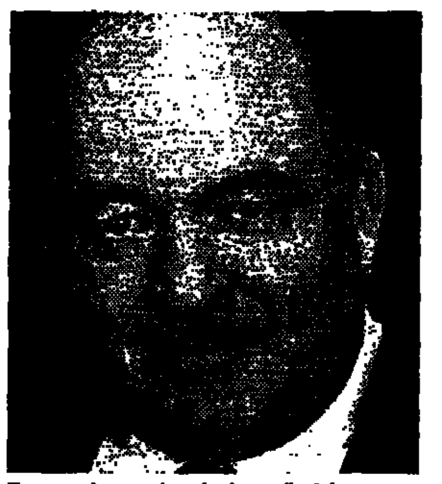
Not surprisingly, the financial services sector is a big employer in the Philadelphia area: CoreStates employs 8,400; Cigna 6,500; the stock exchange upwards of 3,000; and Vanguard 3,600, at its headquarters in Valley Forge just outside the city.

Banking, the largest single sector in Philadelphia's financial services industry, has an interesting story to tell. As in other regions, banks in the "tri-state" area around Philadelphia (Pennsylvania, New Jersey and Delaware) have been part of an industrywide consolidation process that has trimmed the number of banks through mergers, acquisitions and failures.

In the Philadelphia region, many of the mergers were completed in the first wave of consolidation at the start of the 1990s. That was when larger regional banks began to expand by aggressively acquiring smaller ones in their area. The result was the creation of "Super-regionals" such as PNC and Mellon, both based in Pittsburgh, and First Fidelity, based in in New Jersey.

CoreStates, Philadelphia's biggest bank with net income last year of $327.9m and assets of almost $26bn, joined in this trend during that period with its acquisition of First Pennsylvania. Yet the bank did not hit its stride in the acquisitions business until the past year, by which time the other super-regionals from the area had exhausted their appetite for expansion.

In the past eight months, CoreStates has spent $1.15bn purchasing three banks (Constellation of New Jersey, and Independence Bancorp and Germantown Savings Bank of Pennsylvania) and one asset management company (Rittenhouse Financial


Terrence Larsen: 'no shark repellants'

Services of Pennsylvania) from within the tri-state area.

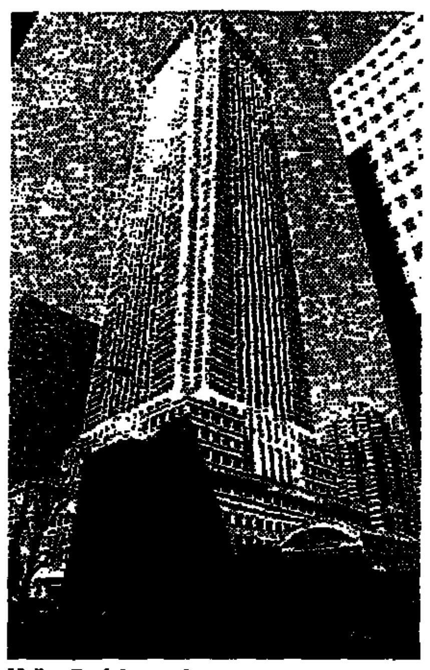
Two of the bank acquisitions – Independence and Germantown – were widely viewed as astute moves. Richard Lawrence, banking analyst at Janney Montgomery, described the two banks as "gems", and both will strengthen CoreStates' presence in Pennsylvania.

The Constellation deal, however, was another matter. Analysts were quick to point out that the bank had its fair share of problem loans, and many believed the $320m price tag was too steep. Terrence Larsen, chairman of CoreStates, says some of the Constellation deal criticism is valid. "It was seen as being pricey and difficult, and I think that's a fair assessment. We paid full price for it, and we'll have to work very hard to make it work."

For CoreStates, however, Constellation "finishes what we need to do in northern Jersey," says Mr Larsen. The bank will be quickly merged into CoreStates' New Jersey National Bank affiliate. As for the problem loans: they will either be sold off or taken as a charge against earnings.

Although the acquisitions were primarily about building CoreStates' retail franchise, the bank also has a flourishing wholesale and electronic banking business. On the commercial side, the bank focuses on servicing mid-sized companies in the region, with annual sales of anything between $15m and $20m, while in electronic banking it has long been an industry leader in providing cash management and transaction processing services to clients.

The bank also has a sizeable presence overseas, having stuck with its international business during the 1980s when other US banks pulled out. Funds transfer and trade finance are trademark businesses, and Asia is where CoreStates is enjoying the most growth.


Mellon Bank has a strong presence

The one big question hovering over CoreStates is whether it can retain its independence for much longer. It is the right size, and is sufficiently profitable to make it a tempting target for bigger banks, such as PNC, which has often been mentioned as a potential suitor.

Mr Larsen takes a sanguine approach to the issue. "I would like to think we're on some people's list, sure. We're a very attractive franchise. But we're not interested in being acquired. At the same time, we have not put in place any shark repellants, and I've never refused to talk to anyone."

While CoreStates stands out among banks in Philadelphia, the region's insurance industry is dominated by Cigna, one of the largest insurers in the US. The company is involved in a wide range of businesses, including property/casualty and life insurance, reinsurance, pension management, and financial services. Cigna is also heavily involved in the healthcare business, being one of the largest, and most profitable, providers of managed care services in the US as the operator of 48 HMOs (health maintenance organisations).

It is Cigna's property/casualty business, however, that has attracted most of the attention recently, and for all the wrong reasons. Since 1989, the company has lost $1bn on its p/c business, primarily because of high asbestosis and environmental insurance claims and the generally "soft" pricing environment.

In an attempt to turn the business around, last year Cigna hired Gerald Isom, head of Transamerica Insurance, to clean up the p/c operation. Mr Isom quickly restructured the business, cut back the underwriting book, and reduced the payroll.

With the help of a more favourable pricing climate, Cigna is expecting to see the first improvement in the p/c operation's bottom line this year. Given the "long-tail" nature of the insurance business, however, it is not likely to return to profitability for several more years.

The city's stock exchange is the largest currency options market in the world

No anxiety over competition from Paris

It may be the oldest equities trading forum in the US, dating all the way back to 1790, but the Philadelphia Stock Exchange today is better known for its thriving currency options business than it is for the trading of stocks, a business now thoroughly dominated in the US by the New York Stock Exchange and the Nasdaq screen-based market.

That is not to say that the PHLX has abandoned equities trading. It currently lists 2,300 stocks, and volume last year totalled 1.3bn shares, averaging about 5m shares a day.

These totals, however, are dwarfed by the big exchanges. The NYSE traded 66.9bn shares last year, at an average of 264m a day. The PHLX's share of all equities trading in the US hovers around 3 per cent, behind not just the NYSE and the Nasdaq but also the Pacific Stock Exchange and the Midwest Stock Exchange in Chicago.

Philadelphia does have a bigger share of the equities options market, where it comes in behind the Chicago Board Options Exchange and the American Stock Exchange in New York. The PHLX is noted for its index options. Its next product will be an option on a Big Cap index, a basket of 50 large-capitalisation US stocks, nicknamed the "nifty fifty", which the PHLX hopes will grab the attention of investors.

Yet, if you mention the exchange's name to anyone in the financial markets in the US and overseas, they will almost always think first of currency options. Having pioneered the product in the early 1980s, the PHLX is now the largest exchange-traded currency options market in the world.

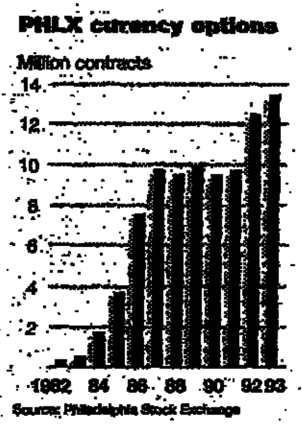
Last year, a record 13.1m currency option contracts were traded on the exchange, keeping it well ahead of its main rival, the Chicago Mercantile Exchange. In 1992, the PHLX handled the world's largest single currency options trade, which consisted of 180,800 French franc options with an underlying value of $8.1bn.

The PHLX opened its currency options business in 1982 with a sterling option contract. Since then, it has added options on the Deutsche Mark, the yen, the French and Swiss francs, the Canadian and Australian dollars, and European currency units (Ecus). It also trades options on three cross-rates: D-Mark/yen, sterling/D-Mark, and sterling/yen.

The PHLX has become popular because it's products appear to fit the needs of corporate risk managers who wish to hedge their foreign exchange risks, because its market is liquid, and because the floor is open for most of the day. In fact, the PHLX trades currency options for all but three and a half hours of each working day.

Currency options contracts are most useful during periods of volatility on the foreign exchange markets, and so the turmoil among European currencies since 1992 has been a godsend for the PHLX. Companies and financial institutions, seeking to hedge their currency risk in the increasingly unpredictable forex markets, especially those facing exposure to the French franc, have been using the PHLX's currency options contracts. Its business from European customers has grown so much that last year the exchange moved its annual September symposium from Philadelphia to Paris.

It is from Paris, however, that the PHLX faces a potential threat to its dominance of the currency options market. Later this month, the Paris futures market (Matif), will launch two dollar options contracts on the




Nicholas Giordano is not worried that its time zone will help the Matif

French franc and the D-Mark. The Matif hopes the contracts will win European, and particularly French, business back from Philadelphia. If the first two contracts are popular, the Paris exchange will consider launching 20 others.

The PHLX, however, is untroubled by the prospect of another exchange trying to break into one of its biggest markets. Nicholas Giordano, PHLX chairman, says: "No, we're not worried. We have been able to maintain a leadership position because we understand this market very well. We refine our products as they need refining. We respond to our customers. We provide liquidity, and we continue to educate. And the customers appreciate that, so I see no reason why anything will change."

But surely when the Matif's currency options start trading, European institutions will choose to use the exchange on their doorstep, rather than one in the US? "First of all, I'm not sure what it is that is going to be on their doorstep," replies Mr Giordano. "There needs to be liquidity, there needs to be service, and an understanding by the people providing the service. Customers know they can get it here."

He is not even worried that the time difference between Paris and Philadelphia will give the Matif a big natural advantage. "We're open in their time zone, at 1.30am. And it gets very active here at 3.30am, which is 9.30am Paris time. We've done that to facilitate our customers in Europe, and I think they appreciate that. I see no reason at all why [the business] should shift. I don't know what added value is being brought to the table. I haven't seen it."

Industry experts agree that it will difficult for Paris to wrest business away from Philadelphia, because the PHLX has such a head start over the Matif in the currency options business.

Hal Hansen, president of Cargill Investor Services in Chicago, says: "The Philadelphia Stock Exchange has for years developed and created a viable product and a very popular contract. I can understand why the Matif is aiming to compete for that business, but experience shows that it's very difficult to unseat an exchange, and take a product away, when it's been very well established over time. There are loyalties, and confidence in market mechanisms, and established levels of liquidity, that customers are comfortable with, and have come to depend on. That is not to say that the Matif can't develop the same product, but it won't be an easy task, and at the very least it will take lot of time. Ultimately, of course, the customer will decide, based on where they're getting the best pricing and the best quality of liquidity."

The Matif is not the only cloud in the PHLX's sky. As a small, successful, exchange, the PHLX is regularly discussed as a candidate for a merger with any one of its many rivals. This is based on the assumption that there are too many options exchanges in the US, and that consolidation is required if the industry is to prosper into the 20th century.


'Now for the nifty fifty': the exchange's next product is expected to grab investors' attention

Since the late 1980s, the PHLX has received several merger offers, and rejected them all, most recently in December when it turned down a proposed $68m merger with the Chicago Board Options Exchange.

Mr Giordano believes the PHLX is better off independent, and many of the exchange's members – who know that a merger would leave a large number of them out of a job – agree. The PHLX chairman says: "It has proven to be very difficult to merge two exchanges. If you look around, you'll be hard-pressed to find that two viable exchanges have ever merged."

The latest offer from the CBOE was declined, says Mr Giordano, "because the membership wanted to stay independent, and they felt that price offered was nowhere near value of the exchange. But I'm not sure there is a right price."

Ultimately, he believes that it is in the best interests of the industry's customers that the US exchanges remain independent, because competition between them has led to a better quality product and better service.

Patrick Harverson

Frank McGurty explains why the region is a magnet for biotechnology

Low costs, ready resources

Greater Philadelphia is to biotechnology what the San Francisco Bay area is to computer science. With its rich stock of trained scientists, plentiful sources of venture capital and a deep base of medical schools and research laboratories, the area is hothouse for budding life science companies.

Over the past decade, more than 100 start-up biotech companies have sprouted and flourished in the region.

Cephalon, located in suburban West Chester, is typical. Set up in 1987 by a research team from DuPont, the company is engaged in developing new drugs to treat neuro-degenerative disorders. Initial capital came from local funds set up to help young biotech businesses get on their feet.

"We really are in the centre of a diverse biotechnical community here," says Jason Rubin, vice-president of corporate communications.

Dozens of established enterprises – big and small, foreign and domestic – have been lured to the region by the concentration of resources, the low cost of doing business and the attractive lifestyle it offers.

Last year, Camus-Landanger, a tiny French medical devices supplier, set up shop in Newtown Square, about five miles south-east of Philadelphia. It was no coincidence that Boiron-Borneman, a leading French supplier of homeopathic medicines, had decided to expand across town.

"The managerial pool is available. Taken together with the science, and the venture capital, we have all the ingredients for entrepreneurship," says Peter Sears, head of SR One, an investment arm of SmithKline Beecham. His company is the fifth largest venture capital fund serving Philadelphia. All told, there is nearly $2bn available for financing local biotech projects.

The enterprising heart of the industry lies just west of the city limits on US Route 202, where some 30 small research companies have clustered along "Medical Mile". Dozens more are scattered around the area.

But a stalwart base of multinational pharmaceutical companies has powered the industry's growth engine as well. Merck, DuPont, Wyeth Labs, McNeil, SmithKline Beecham and Rhone-Poulenc Rorer all have strong presences in the area.

With so much activity, biotechnology and pharmaceuticals are the fastest growing sector of the regional economy. Their strength has helped offset a painful contraction in a manufacturing base which has lost 66,000 jobs since 1988.

The story is not entirely positive. The

'Managerial pool, science, venture capital... We have all the ingredients for entrepreneurship'

wave of restructuring sweeping US businesses has not spared the drug sector, which is bracing itself for lean times after national healthcare reform is enacted later this year. In Philadelphia, however, the two-tier structure of the industry has softened the blow.

"In the pharmaceutical business, there has been a lot of down-sizing, and some of these people are very good managers and researchers. Many of them have been snapped up by the small companies," says Mr Sears.

Indeed, the two sides enjoy a symbiotic relationship. The big companies offer a rich pool of talent from which startups can draw. The small biotechs, meanwhile, represent promising sources of new products for drug giants willing to enter into joint ventures and marketing deals.

The area's five medical schools and a clutch of research institutes, such as the Fox Chase Cancer Center, provide biotech companies with ready access to clinical testing facilities.

Despite its wealth of resources, Philadelphia would be less fertile ground for biotechs without some careful nurturing by groups such as The Ben Franklin Partnership, a private, non-profit organisation funded by the state and federal governments. "The mission of our organisation is to build economic competitiveness through technology and innovations," says Philip Singermann, head of the Ben Franklin Technology Center, which administers the programme in the area.

One of the ways it does this is by helping fledgling companies stay on aloft while they are in the early stages of developing viable commercial products.

Often the lead time is lengthy. Symphony Pharmaceuticals, located in Malvern, Pennsylvania, needed five years to develop an innovative drug to protect the brain after injuries. The partnership has provided $85,000 over two years to help the company over the hump.

The centre is also involved in assisting scientists to bring their research from the laboratory to the marketplace. Together with British Technology Group USA, a leading technology transfer organisation, it sponsors a consortium of universities, research institutions and venture capital firms known as the Start Technology Partnership.

Start's mission begins further upstream, by identifying a promising technology before the university which invented it signs up with a corporate sponsor. The idea is to add value to the innovation beforehand, through further refinements or by seeking wider applications. That allows the institution to realise a better return on its work.

"We try to push as much back to the technology source as possible, and build off the resources of the member organisation," says Andrew Neighbor, the director. "We are very much the hub of a big wheel."

GREATER PHILADELPHIA 4

The region is home to some of the most famous corporate names in American business. FT writers discuss the progress of four of them

Bell Atlantic eyes multimedia

The 53-storey, four-year-old Bell Atlantic Tower is a dominant feature of the Philadelphia skyline and a permanent reminder of the importance to the city of this innovative local telephone giant.

Bell Atlantic is one of the seven "Baby Bells" – the regional phone companies spun off from American Telephone & Telegraph in 1984 under an anti-trust court settlement.

It is the dominant telephone company in New Jersey, Pennsylvania, Delaware, Maryland, West Virginia, Virginia and Washington DC. Not only is its headquarters, the Bell Atlantic Tower, in Philadelphia, but so too is the headquarters of its local telecommunications operating company for the state, called Bell Atlantic, Pennsylvania.

The company has gained a reputation under Raymond Smith, its chief executive since 1989, of being the most entrepreneurial of the Baby Bells.

But radical change is sweeping through the US telecommunications industry as the boundaries which divide it from the cable television and computer industries blur. This is eroding the local monopolies as new rivals, such as cable companies, start providing telephone services.

The change is also opening up huge new opportunities for the Baby Bells, which can play a leading role in the provision of inter-active multimedia – combining traditional telecommunications and television-based services – to the home and office. In addition, they should eventually be allowed to enter the long-distance telecommunications market, an area from which they are barred under the AT&T break-up agreement.

Bell Atlantic is at the forefront of this revolution – though it suffered an embarrassing setback this year when it had to call off a merger with Tele-Communications Inc, the largest cable service provider in the US.

The deal collapsed in February, ostensibly because the Federal Communications Commission ordered the cable industry to make big cuts in the basic rates it charges consumers, which in turn upset the terms on which merger had been agreed.

However, other factors may have been involved, including a clash of culture between the racy, entrepreneurial TCI and Bell Atlantic, which, for all Mr Smith's changes, retains a somewhat conservative culture deep down.

The chief executive is a native of western Pennsylvania who joined the local AT&T operating company, then called Bell of Pennsylvania, in 1961. He became president of the company in 1983. When he became chief executive of Bell Atlantic six years later he moved quickly to cut costs, and the group is now the slimmest of the Baby Bells, ranked by number of employees relative to phone lines.

Despite the collapse of the TCI deal, Bell Atlantic will still be a major force in multimedia; but, as Mr Smith said recently, it will now pursue a more flexible strategy on a "market by market, partner by partner basis". This suggests that it will take the company substantially longer to build up a significant presence outside its own operating area.

Within its operating area, it is pressing ahead with several important inter-active initiatives. In August it won a landmark court victory which has freed it to provide its own inter-active video service down its phone lines, an area from which it was barred under 1984 cable television legislation.

It has been testing such a service in Northern Virginia, and in July will open a new digital production centre in Reston, Virginia, where its interactive services will be created and packaged for delivery to consumers.

Its other initiatives in this area include: joining with a small New Jersey company to blanket the New York area with an inter-active wireless television service to compete with cable TV; and teaming up with companies in two areas of New Jersey to deliver cable television programmes over modernised phone lines.

Although the company has no large-scale multimedia experiments under way in Pennsylvania, the state expects to get its fair share in future. Bell Atlantic expects to will spend $80m on new plant in the region around Philadelphia this year, and intends to make ISDN – an intermediate technology which increases the capacity of an ordinary phone line – available throughout the area this year.

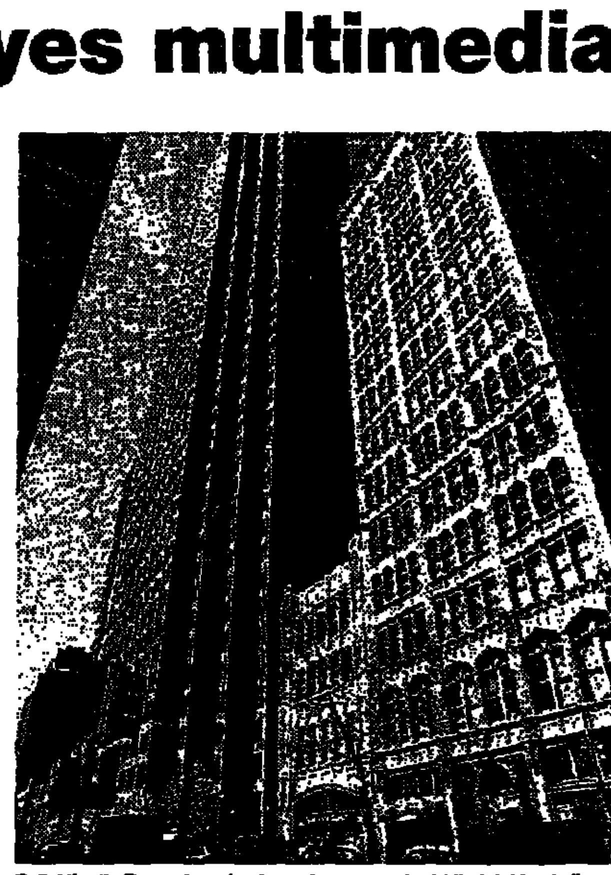
As for community activism, Tony diGioia, executive director for external affairs, Bell Atlantic, Pennsylvania, says the company's main thrust is in the areas of economic development and education.

Some $3.5m of the subsidiary's $5.7m state-wide contributions budget is committed to the Philadelphia area, with about $1.5m of the total going on educational projects. The company's activities include a programme to help reduce the school drop-out rate, by sending employees into schools to talk about career choices; and mentoring, under which staff members adopt a school child and give him or her guidance. Bell Atlantic has also adopted two schools in the troubled inner-city area, and tries to give them extra help.

As for economic development, it is a partner in a scheme which helps small businesses across Pennsylvania identify problems and expand, and it has also been involved in the creation of a computer model which will identify what businesses can best be recruited for particular areas of the state.

Within Philadelphia itself, the company is one of 21 organisations involved in Strategy 21, a partnership working to improve the industrial competitiveness of the city in the 21st century.

Martin Dickson



Bell Atlantic Tower is a dominant feature of the Philadelphia skyline

Sun emerges from the clouds

Philadelphia loves a comeback story. It is a spirit epitomised in the movies by Rocky Balboa, the washed-up palooka who made the most of his last big shot to be somebody.

In real life, there is no finer example than the impressive turnround by Sun Company, one of the stalwarts of Philadelphia's old industrial base.

In 1991, the 105-year-old energy group – the fourth biggest company in the region – was a flabby under-achiever weighed down by a bloated portfolio of peripheral businesses. Overall, its operations were producing a meagre 2 per cent return on equity.

Just two years later, the company is showing a return on equity of 10 per cent, having transformed itself into a lean contender with good prospects of sustained growth.

"They have identified where they have the best chance to be profitable," says Mr George Baker, an analyst at Merrill Lynch in New York. "In doing so, they have gone a long way towards making the company a more focused enterprise."

Sun has gone a long way in setting itself apart from its rivals, too. More than any other big energy group, it has emphasised a commitment to safe and sustainable environmental practices. It was the first Fortune 500 company to endorse the principles of the Coalition of Environmentally Responsible Economies, a non-profit organisation set up after the Exxon Valdez oil-spill to promote green business policies.

On a smaller scale, Sun has put a human face on its corporate image with several innovative programmes, including an offer to buy and junk worn-out cars which are heavy polluters.

In a small step which may symbolise the fresh approach, its headquarters was brought back to downtown Market Street after 23 years' exile in the suburb of Radnor. Nostalgia, however, had less to do with the relocation than did a desire to cut costs.

The move was part of a comprehensive streamlining implemented soon after Mr Robert Campbell took over as chairman and chief executive in 1992. Under the new regime, the company has shifted its focus back to its traditional strengths – refining and marketing in the north-east.

In its core operating region, Sun commands 14 per cent of the retail petrol trade, the second largest share behind Mobil. Branded petrol accounts for 37 per cent of total sales, by far the company's most important revenue generator. Sun hopes to build on these strengths.

Concurrently, the group has withdrawn from the areas where it was taking a beating. It finally threw in the towel on most of its international exploration operations, after spinning off its US exploration and production in 1988.

"In drilling for oil and gas, we had a horrible record," admits Mr Robert Aiken, chief financial officer. The company is still involved in international crude production, which remains profitable. Coal mining and real estate were deemed losing propositions, too.

In Sun's continuing operations, expenses were slashed and the workforce reduced by 20 per cent to 14,000.

So far, the results have exceeded Mr Campbell's goals. Sun posted operating profit of $193m last year, against $30m a year earlier. The figure is well ahead of its target of achieving a $150m improvement. The company was again able to tap operating income in paying its dividend, another of the chairman's ambitions.

Analysts are divided about some of the company's specific moves, and point out that its recovery is part of cyclical upturn by the industry as a whole. But most agree that the overall strategy is sound.

Sun wins plaudits for securing long-term leases to operate filling stations along the Pennsylvania turnpike. The company also gained exclusive rights to sell petrol along the New Jersey turnpike, perhaps the most travelled highway in America. The high visibility of operating along such motorways carries benefits that exceed the revenues they directly generate, analysts say.

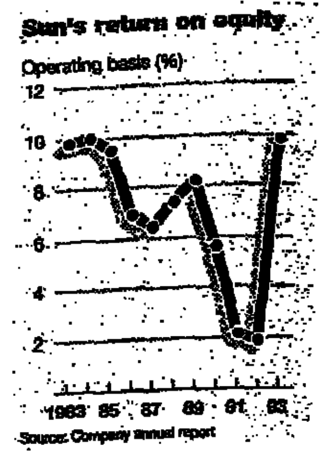
Meanwhile, filling stations in the mid-west have been sold; underperforming outlets in the north-east have been pared from its 3,000-strong network. A move to integrate its branded petrol offerings under a single banner – Sunoco – is also expected to pay off in higher margins, a critical factor in petrol retailing, where demand at best grows a scant 1 per cent a year.

The group also put a feather in its cap by agreeing to buy a Chevron refining plant located on property adjacent to its main Philadelphia facility. The bargain-basement price of $170m made the deal an easy sell, even though the potential environmental remediation costs which Sun may face have yet to be quantified, says Mr John Hilton, an analyst at Argus Research in New York.

"Such investments are usually just shots in the dark," says Mr James Murchie, who follows the industry for Sanford C.Berstein in New York. He argues that future demand and margins on refined products are nearly impossible to gauge. Refining, a costly necessity for a marketer of petroleum products, continues to be a drag on Sun's bottom line, accounting for $80m in operating losses last year.

Still, the Chevron acquisition was a safe bet, says Mr Murchie. Indeed, if the deal had been completed before this winter's deep freeze, which brought a sharp increase in demand for heating oil, the investment would have already paid for itself.

Frank McGurty



Branded petrol earns most

US Healthcare cuts costs, retains quality

A pleasant but innocuous office complex, 20 miles north-west of Philadelphia, has become a focal point in the great debate over the future of the American healthcare system.

The headquarters of US Healthcare, located in the leafy suburb of Blue Bell, has been the incubator for many of the ideas which are likely to form the basis for healthcare reform, the hottest issue on the national political agenda.

As one of the country's first health maintenance organisations, set up in the late 1970s with a small government grant, the company has developed many of the practices which have come to be known as "managed care".

Building on early success, the company has become the one of Philadelphia area's biggest businesses, with annual revenues of $2.65bn. It operates in eight states in the north-east, but Pennsylvania remains its largest market by far.

What is managed care? Under its system, explains Mr Costas Nicolaides, chief financial officer, "the financing and delivery of care is integrated"; as opposed to the traditional indemnity systems, in which the insurer "simply pays bills".

A plethora of proposals to reform the inefficient US healthcare system is now under consideration by Congress. President Clinton, in presenting his benchmark plan, made reform his administration's top priority.

The final form of the legislative package is far from certain. But it is becoming apparent in Washington that many aspects of the model championed by US Healthcare will feature prominently in the bill that finally emerges this autumn.

"Most federal healthcare reform proposals emphasise going more toward managed care, in order to build savings into the system more constitutionally than at present," says Mr David Simon, senior vice-president.

As the largest and most innovative company in its field, US Healthcare has convinced many sceptics that soaring US medical costs can be effectively contained without undermining the quality and availability of services.

In fact, it has shown that low costs and high-quality care are mutually-supporting goals when the traditional hands-off relationship between insurers and medical providers is abandoned. "Quality care in the end costs less for us and the customer," says Mr Simon.

Prevention, it appears, is worth much more than an ounce of cure. By placing emphasis on primary and pre-emptive care, US Healthcare has found ways of cutting hospital stays and expensive medical procedures. It has pioneered programmes aimed at promoting "wellness" – how to help people stay healthy – as well as schemes for the early detection of illness.

Its high-risk maternity programme is a good example. By offering pregnant women in certain categories early access to specialists, US Healthcare achieved a 50 per cent reduction in the use of neo-natal intensive-care services.

By contrast, most traditional health plans neither pay for preventive care, even in high-risk cases, nor control access to specialists. Patients are left to their own devices. The result is often unnecessary visits, which drive up premiums, or more expensive treatment after serious symptoms develop. That's bad medicine as well as bad business.

By making preventive and medical-management programmes its hallmark, US Healthcare held growth in its costs per member to 4 per cent last year, a full point lower than the rate at which the medical consumer price index increased.

The company's operating economies are reflected in its price tag. A recent independent analysis showed that the company's coverage costs a family about half the amount charged by typical indemnity plans, when differences in benefits and total out-of-pocket expenditures are taken into account. Even when such factors are not considered, US Healthcare says its premiums are 20 to 30 per cent less.

As with most HMOs, a fixed monthly payment entitles subscribers to unlimited treatment by a network of providers, with only nominal charges for each office visit. General practitioners are the gate-keepers to a team of specialists, all of whom work under contract with the company.

By contrast, most traditional indemnity plans require customers to pay "deductibles", or excess payments. Premiums are assessed on the basis of the individual's risk of falling ill, and sometimes coverage is denied. This practice is known as "experience rating".

Instead, HMOs use "community" rating, which combines the risk of all subscribers and divides it equally among them. "It's a much more egalitarian system. But most importantly it prevents situations in which people who are sicker, or who get sick, have to pay more," Mr Simon says.

But low premiums are only part of the equation. The company's medical costs as a percentage of income dropped to 68 per cent last year, from 75.1 per cent in 1992. Membership, meanwhile, jumped nearly 12 per cent to 1.67m, continuing a long string of double-digit increases from internal growth, rather than acquisitions. Total premium revenue was up 21 per cent.

Not surprisingly, higher gross income and lower cost added up to a 50 per cent surge in 1993 net earnings to $300m last year. "One of the reasons US Healthcare has been so profitable is they have such good control over the product and pricing," says Mr David Lothson, an analyst at Paine Webber in New York.

Senior US Healthcare executives are clearly feeling a quiet satisfaction over the growing appeal of their approach.

Since the national debate over healthcare started in earnest last year, "there has been a greater awareness of the kind of things that count: quality, cost-containment and accountability. These are things that US Healthcare began to recognise long ago," says Mr Nicolaides.

Frank McGurty

How Unisys recovered

They are smiling again at the Jolly Road, Blue Bell, headquarters of Unisys, the largest high-technology company in the Philadelphia region. After years of heavy losses that brought the computer manufacturer to the brink of disaster, the company is making a strong comeback.

Unisys was created in 1986 when Michael Blumenthal, then chairman of Burroughs, masterminded an audacious plan to form a giant computer company by acquiring rival Sperry for $4.8bn, combining two of the oldest companies in the computer industry under a new name.

At the time, Mr Blumenthal boasted that within a few years Unisys would achieve annual revenues of $20bn and challenge International Business Machines' dominant role in the computer industry.

Instead, Unisys became the first of the large US computer companies to suffer the effects of a market shift away from proprietary mainframe computers to networks of standard desktop machines.

Burdened with heavy debts from the Sperry acquisition and the high costs of maintaining two incompatible product lines, Unisys plunged into heavy losses in 1989. To make matters worse, the company's defence business became embroiled in a Pentagon bribery scandal.

Over the three years 1989-1991, the company recorded total losses of almost $2.5bn as it drastically restructured its operations, taking charges totalling $1.6bn to cut its workforce and consolidate operations. Analysts were predicting the company's demise.

Defying the prophets of doom, however, Unisys, under the leadership of James Unruh, appointed to replace Mr Blumenthal as chairman and chief executive in 1990, has staged a recovery all the more remarkable because it comes as two of the company's largest competitors, IBM and Digital Equipment, are struggling to adjust to adverse market trends.

The turnround began at the end of 1991, when Unisys recorded a modest fourth-quarter profit. The company has not looked back since. Over two years, its profits doubled to $565.4m in 1993. Net debts had been reduced from a peak of almost $4bn to $1.1bn at the end of 1993.

The return to profitability has not come without human costs. The workforce, which numbered about 120,000 at the time of the merger, has been reduced to 49,000. Retirement benefits have been slashed and the company has closed several plants. Unisys now appears, however, to be ahead of competitors in streamlining its cost structure and rationalising capacity, say analysts.

"The turnaround is real... Our computer business has executed better over the past two years," said Curt Rohrman, of First Boston, in a recent report on the company.

Revenues, however, are still declining. For 1993, the company reported sales of $7.7bn, down 23 per cent from a 1990 peak of $10.1bn. Only about 10 to 15 per cent of Unisys' sales are to new customers.

To offset declining sales, Unisys is focusing increasingly upon the services side of the computer business, providing systems integration and consulting services to its customers. Analysts expect the company's service and consulting revenues to grow by 20 to 25 per cent over the next few years from $1.6bn in 1993.

"We are not going to become a computerless computer company," Mr Unruh says, "but we are in the information management business, rather than the computer business. Our services and systems integration revenues grew by 19 per cent world wide last year."

The company has targeted the airline, health care, insurance, banking and phone companies as areas where it can offer specialised software and services.

It plans to offer similar software to banks, car rental agencies, hotels and insurance companies, enabling them to provide better service and to research their customers' buying habits. The new software could generate sales for Unisys of as much as $1bn over five years, industry analysts predict.

In a bid to boost flagging sales of mainframe computers, Unisys has moved ahead of competitors in a transition to more cost-efficient semi-conductor chips built using the same chip technology widely used in desktop computers. Ironically, these chips will be manufactured, to Unisys' specifications, by its long-time rival IBM.

Unlike traditional mainframes, Unisys new computer systems will not require elaborate water cooling systems. This will make them better suited to today's networked computer systems, in which computers are typically spread throughout the offices of a company or organisation.

As confidence in Unisys' future rises, the company has won several prominent orders. These include a $1bn contract for an Amazon-region environmental surveillance system; a $127m contract to computerise the largest savings bank in Russia; and other banking-automation contracts in eastern Europe totalling $400m.

"We see 1994 as a year of visible progress in differentiating Unisys in the marketplace," says Mr Unruh.

In Philadelphia, this raises the hope of new jobs. Unisys is one of the largest employers in the region, despite the cutbacks of the past few years. The company currently employs about 4,300 in and around the city, down from 5,600 at the end of 1990.

Louise Kehoe

The turnround at Unisys ($)

Years	Sales	Net income	*EPS
1993	7,742,500,000	565,400,000	2.89
1992	8,421,900,000	361,200,000	1.46
1991	8,696,100,000	-1,393,300,000	-9.37
1990	10,111,300,000	-436,700,000	-3.45
1989	10,096,900,000	-639,300,000	-4.71

*Earnings per share

Tourism is the centre-piece of a programme to stimulate the economy

Best hope for replacing lost jobs

For many tourists, Philadelphia is just a sign on the motorway, a place to drive by on their way to New York, Washington or Baltimore.

Even though more than 10m people from outside the area visited the city last year, spending nearly $500m, local officials have recognised that Philadelphia is falling well short of its potential as a holiday and business destination.

The issue is not just a matter of civic pride. Mayor Edward Rendell wants to bring in more visitors, because the travel and leisure industry represents Philadelphia's best hope of replacing some of an estimated 11,000 jobs lost every year as companies restructure or move elsewhere. Since 1970, the city's employment base has contracted by 240,000.

To stem the tide, Mr Rendell has made tourism the centre-piece of an ambitious economic stimulus programme unveiled earlier this year. In his 1994 budget proposal, he earmarked some $420m for projects to lure more visitors to the city. He says he is committed to helping Philadelphia take "its place as one of America's premiere destination cities".

"By necessity, tourism has to be one of the pillars of the city's economy," says Thomas Muldoon, head of the Philadelphia Convention & Visitors Bureau. "We have to figure out how to make people stay longer and spend more."

There is nothing wrong with the basic product. Unlike Cleveland or Pittsburgh, it is not perceived as a grimy industrial town on the wane. Indeed, its downtown streets are lined with graceful 18th century town-houses and arresting post-modern office towers, forming a sprawling showcase of American architecture.

Unlike Detroit or Miami, the city of brotherly love does not suffer from a image as a crime capital. Rather, it is perceived as a place of civility and charm, a modern urban centre still tightly bound to its Quaker traditions.

Yet its sports fans are notorious for their irascibility. Whenever its four professional sports teams fail to measure up, the home crowd is sure to boo mercilessly. In baseball, the Phillies exemplified the city's scrappy sporting tradition, going from worst to first in their league last season.

> The city is confident that it will eventually attract half a million convention visitors a year

As a centre of history, the city has always stood top of the table. It is bursting at the seams with landmarks. The Liberty Bell, the symbol of America's fledgling democracy, and Independence Hall, where the Declaration of Independence was adopted and the US constitution written, form the core of "America's most historic square mile".

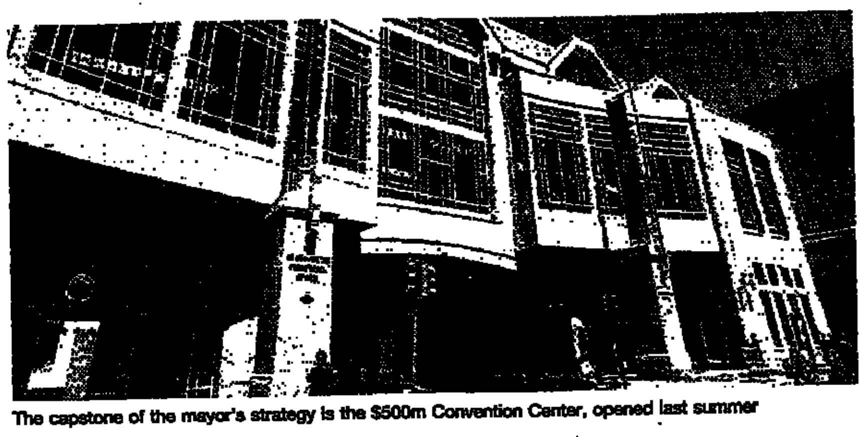
Philadelphia is also home of the country's third largest art museum, the world's leading symphony orchestra in terms of record sales, and seven out of 50 of the best restaurants in the US, according to a recent survey of Condé Naste Traveler's readers.

In short, Philadelphia is one of the most interesting places on the east coast. So where has it gone wrong? "Philadelphia's basic problem is that it suffers from a lack of image," says Mr R.C. Staab, a senior tourism official. "People don't necessarily know why they should come here."

Mr Rendell intends to get the word out. The "capstone" of his strategy is already in place, with the opening last summer of the $500m Philadelphia Convention Center, build with public and private funding. The second phase of the complex, the restored Reading Terminal Train Shed, was completed this spring. The huge, hangar-like structure, which stands alongside the main convention hall, houses a grand ballroom and a bustling farmers' market.

The centre itself, the second largest convention hall on the east coast, is designed to serve two functions.

First, the city is confident it will become a magnet for conventioneers, eventually attracting some 500,000 visitors a year. The economic impact of this "critical mass" of visitors will spill over into the entire leisure industry, says Mr Staab. "Historically, an increase in meetings and conventions in a city leads to an increase in tourism."


The capstone of the mayor's strategy is the $500m Convention Center, opened last summer

Bookings are already running well ahead of projections. Mr Muldoon says the centre's early success in part reflects in its prime location two blocks from the elaborate Victorian city hall, the geographic and commercial centre of Philadelphia.

Therein lies the complex's second function. "What this convention center becomes is a focal point for the city," Mr Muldoon says. "The key was to put it in the middle of the city," in contrast to New York's Jacob Javits Center, which is situated at the western fringe of Manhattan.

Blending warmly with the weathered brick and granite facades of central Philadelphia, the complex stands at the crossroads linking all the city's leading tourist sites, a "loop" of attractions which the mayor hopes to bind together in a package.

To the east, lies the downtown historical district. A few blocks west is a parade of museums along the Benjamin Franklin Parkway.

A short walk to the south is the "Avenue of the Arts", where the city has embarked on a $300m programme to create a performing-arts complex along a mile-long stretch of South Broad street. The idea is to build on an existing base of cultural institutions along the corridor, including the celebrated Philadelphia orchestra and the Pennsylvania ballet.

The scheme, to be financed by public and private money, involves the construction of new concert halls and theatres, and the renovation of others. Mr Rendell estimates the avenue, when completed, will double the number of visitors along Broad street to 1.6m a year and create 1,600 jobs.

But the plan has raised some controversy. Two of the city's leading philanthropists are opposing Mr Rendell's proposal to move the orchestra into a new $140m concert hall. Its current home, the 137-year-old Academy of Music, is to be used for opera and ballet performances after it is restored.

Other aspects of the mayor's master plan have ruffled feathers as well, especially his method of financing the construction of at least 800 new hotel rooms. They are considered essential for the long-term success of the convention center, and ultimately the future of the city's tourism industry.

Mr Rendell has pledged $90m in public funds for new hotels over the next five years, with the aim of attracting another $100m in private financing. The extra space would complement the 1,200-room Philadelphia Marriott, the third phase of the convention complex, due to open next year.

The problem is that the mayor intends to pay for the hotels in part with money generated by riverboat gambling, which the state legislature is expected to approve this year.

Critics say the floating casinos would lead to more crime along the waterfront and, more important, besmirch the city's image as "the cradle of democracy".

But city officials are steadfast in their defence of the proposal. With gaming restricted to riverboats, they argue, the social problems associated with Las Vegas-style casinos would not develop. With a motorway separating the waterfront from the historic old city, the presence of floating casinos would not overwhelm the neighbouring districts.

"We don't think it will detract from the character of the area," says Stephen Mullin, Philadelphia's director of commerce. "As a matter of fact, we think it will add a new dimension, bringing another exciting activity to the city."

Frank McGurty

To complete the Philadelphia story

KEY FACTS: A GUIDE FOR THE VISITOR

Airport: Philadelphia International Airport *tel (215) 937-6800* 8 miles south-west of downtown.
A Septa (Southeastern Pennsylvania Transport Authority) rail line connects the airport with three Center City stations. The trip takes approximately 25 minutes and costs $5. Airport shuttles and limousines take 20-40 minutes to downtown, and fares start at $8. Call ahead to make reservations.
Airport Limelight Limousine (215) 342-5557, Deluxe Transportation Company (215) 463-8787, Philadelphia Airport Shuttle (215) 969-1818. A taxi ride to downtown will cost about $20 excluding gratuities.

Airlines: Those serving Philadelphia include: American Airlines (800) 443-7300, British Airways (215) 492-2460, Continental Airlines (215) 592-8005, Delta Airlines (215) 928-1700 and United Airlines (800) 241-6522.

Car Hire: Alamo (215) 492-3960, Avis (215) 365-3600, Budget (215) 492-9442, Dollar (215) 365-2700 and Hertz (215) 492-7200.

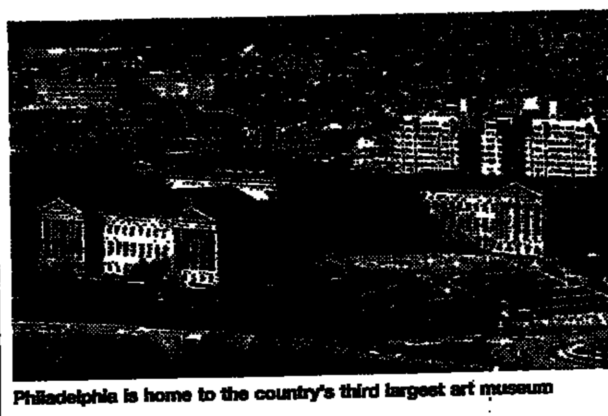
Taxi Services: Cabs in Philadelphia tend to be more expensive than in many US cities. They can be found at designated taxi stops or hailed on the street. The main cab companies are Quaker City Cab (215) 728-8000, United Cab (215) 238-9500, and Yellow Cab (215) 922-8400.

Rail: Philadelphia is served by Amtrak at 30th Street station (at Market Street). Suburban station at 16th street and JFK Boulevard and Market East station at 11th and Market streets (215) 824-7800. Septa's regional rail lines provide service to the outlying areas of the city and the suburbs from the same three center city stations.

Banks: Corestates/PNB, Broad and Locust streets *tel (215) 973-3512*. First Fidelity, Broad and Walnut streets (215) 985-6000. PNC Bank, 100 South Broad Street (215) 585-5000.

Hotels: Four Seasons, 1 Logan Square, 19103 *tel (215) 963-1500, fax (215) 963-9506*. Hilton and Towers, Broad Street at Locust, 19107 *tel (215) 893-1600, fax (215) 893-1663*. Hotel Atop The Bellevue, 1415 Chancellor Court, 19102 *tel (215) 893-1776, fax (215) 893-9868*. Omni Hotel at Independence Park, 4th and Chestnut streets, 19106 *tel (215) 925-0000, fax (215) 925-1263*. The Rittenhouse, 210 West Rittenhouse Square, 19103 *tel (215) 546-9000, fax (215) 732-3364*. The Ritz-Carlton, 17th and Chestnut Streets, 19103 *tel (215) 563-1600, fax (215) 567-2822*. Wydham Franklin Plaza, 2 Franklin Plaza, 19103 *tel (215) 448-2000, fax (215) 448-2864*.

Restaurants: According to Condé Nast Traveler's 1994 Readers' Poll Restaurant Awards, seven of America's Top 50 restaurants, including the Number 1 restaurant in the country, are located in Philadelphia. Ranked first is Le Bec-Fin, offering classic French cuisine, located at 1523 Walnut Street *tel (215) 567-1000*. Also included on Condé Nast's list are: The Fountain, located in the Four Seasons Hotel and featuring American food (215)963-1500. La Truffe (French), 10 South Front Street (215) 925-5062. Deux Cheminees (French), 1221 Locust Street (215) 790-0200. Swann Lounge & Cafe (American), 1 Logan Square (215) 963-1500. Founders (French), 1415 Chancellor Court (215) 790-2814. Grill Room at the Ritz Carlton (American), 17th and Chestnut Streets (215) 563-1600.
Other notable restaurants are Meji-En (Japanese), Pier 19, North Delaware Avenue (215) 592-7100. Di Lullo Centro (Italian), 1407 Locust Street *tel (215) 546-2000*. Tequila's (Mexican), 1511 Locust Street (215) 546-0181. Bookbinders Seafood House, 215 South 15th Street *tel (215) 545-1137*. Russia House (Russian, Georgian & Ukranian), 614 South 2nd Street (215) 629-4888.


Philadelphia is home to the country's third largest art museum

Shops: John Wanamaker (department store), 13th and Market Streets *tel (215) 422-2000*. Strawbridge and Clothier (department store), 8th and Market Streets (215) 629-6000. The Gallery (collection of shops), Market Street, between North 8th and North 11th Streets.

Entertainment: Academy of Music (concerts), South Broad and Locust Streets *tel (215) 893-1930*. Annenberg Center (drama, music, dance), 3680 Walnut Street (between South 36th and South 37th Streets Walkways) (215) 898-6791. Merriam Theatre (plays, dance, concerts), 250 South Broad Street (215) 732-5997. Veteran's Stadium (sports), South Broad Street and Pattison Avenue (215) 463-1000, 463-5500. Spectrum (sports), South Broad Street and Pattison Avenue (215) 336-3600.

Museums: Academy of Natural Sciences, North 19th and Race Streets *tel (215) 299-1020*. Franklin Institute, North 20th Street and the Parkway (215) 448-1200. Philadelphia Museum of Art, North 26th Street and the Parkway (215) 763-8100. Rodin Museum, North 22nd Street and the Parkway (215) 787-5431.

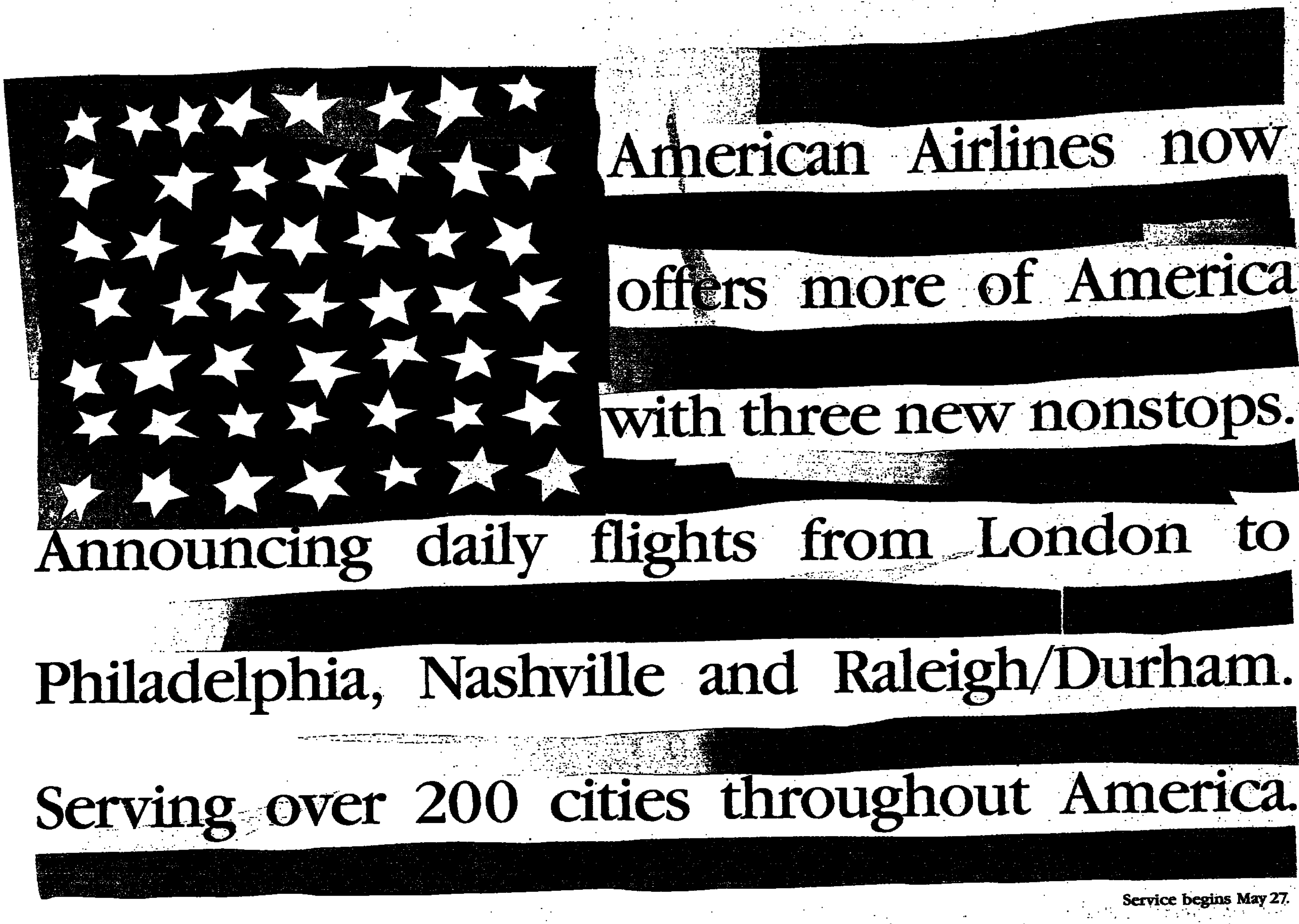
Also of interest: JFK Plaza Visitors Center, North 16th Street and JFK Boulevard *tel (215) 636-1666*. Independence National Park, bounded by Walnut and Arch Streets and 2nd and 6th Streets (includes Independence Hall, Old City Hall, Congress Hall, Philosophical Hall and the Liberty Bell). United States Mint, 5th and Arch Streets. Society Hill, bounded by Walnut and Lombard Streets and south 2nd and south 5th Streets. Historical Society of Pennsylvania, 1300 Locust Street.

Newspapers: Philadelphia Inquirer (morning daily). Philadelphia Daily News (afternoon daily, except Sunday).

Useful information: American Express, 2 Penn Center Plaza *tel (215) 587-2300*. Philadelphia Chamber of Commerce (215) 332-3400. Philadelphia Stock Exchange, 1900 Market Street (215) 567-8925. Septa information (215) 574-7800. Time (215) 846-1212. Weather (215) 936-1212.

Emergency services: AAA Keystone Automobile Club *tel (215) 569-4321*. Alcoholics Anonymous (215) 574-6900. Dental Emergency (215) 925-6050. Medical Emergency (215) 563-5343. Poison Control Center (215) 386-2100. Suicide Hotline (800) 827-7571.

Rivka Nachoma



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